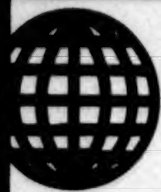


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Differences in Human Rights Concepts Discussed

95CM0058A Beijing ZHONGGUO SHEHUI KEXUE
[CHINESE SOCIAL SCIENCES] in Chinese
No 6, 10 Nov 94 pp 132-141

[Article by Xin Chunying (0207 2504 7751): "Commentary on International Human Rights Issue Hot Spots"]

[FBIS Translated Text] A look around today's world shows human rights to be a most arresting issue: No matter its political system or ideology, virtually every UN member nation uses human rights language, and they all accept certain common standards set forth in the world declaration of human rights. Following the end of the cold war, numerous nations that had formerly maintained a reticent attitude or watchfulness in the international human rights field openly raised the human rights banner. The white paper titled, "Human Rights in China," which the Chinese Government published in October 1991, aroused the attention of the entire world. This was a major event of important significance in the international human rights field. In a certain sense, one might say that human rights is the only generally accepted political and ethical concept. It is a norm and a standard about which nations having different ideologies commonly express respect.

However, on the human rights issue, eastern and western, and southern hemisphere and northern hemisphere nations, developing nations and developed nations, capitalist nations and socialist nations maintain their own separate views. Differences and divisions may be found everywhere. Behind these divergent points of view lie overlapping and complex conflicts and interests. There are political and ideological clashes. When people use human rights language to explain real issues such as national disintegration, ethnic strife, military confrontation, and trade disputes, the human rights concepts that they hold differ. The same language has different connotations. Therefore, the human rights issue has become extremely complex. The deadlock and numerous clashes at the 1993 World Human Rights Congress over the final document illustrates this point. International society is changing. The differences expressed at the World Human Rights Congress have become more glaring.

This article intends to review hot spot issues in the field of international human rights today. It will dissect the essence of these issues, and the social, historical, cultural, and real political and economic reasons behind these different concepts.

1. Universality and Particularity of Human Rights

The universality and particularity of human rights is one of the theoretical issues in the intense controversy in the human rights field.

Philosophically speaking, universality and particularity are two mutually related and mutually distinct concepts. They are not antithetical by nature. However, in the

international human right field, universality and particularity do stand for two antithetical concepts and standpoints. Those who stand for the universality of human rights concept believe that human rights standards and the system for implementing human rights should be universal, while those who espouse the particularity of human rights concept emphasize that, just so long as there is universal identification with human rights, each sovereign nation has the right to decide its own form of human right protection based on its own special circumstances. For example, most developing nations and their scholars advocate that in the international human rights field the universality of human rights is limited to the people's universal acceptance and approval of internationally recognized human rights principles. This does not mean that the human rights concepts and human rights protection systems of every nation and every ethnic group must completely agree with this model. The age in which we live is characterized by universal acceptance of human rights. In a plural international society, the basic meaning of human rights is human dignity. Since 1948, when the UN General Assembly passed the "World Human Rights Declaration," the constitutions of 190 of the world's nations provide, without exception, for the protection of human rights. All the people of the world, no matter where they live, and no matter the social system under which they live, have the right to enjoy the full rights of people. Universality in this sense is not in dispute. However, the people are specific individuals who live in a specific national and historical environment. The task of protecting human rights is realized through specific political and legal systems. However, since the historical, cultural, and geographic environment, development level, and social system of different countries and nationalities vary, their political and legal systems have particularity. A contrasting view (and it is mostly developed Western nations and Western scholars who hold this view) is to emphasize that human rights standards are universal, so the system for realizing and protecting human rights should also be universal. Moreover, the form of human rights protection that should be most promoted is the Western form. The basic value principles in this form of protection, such as democracy, freedom, political participation, elections, political pluralization, etc. should be universally applied to all countries. They maintain that simply to recognize the universality of human rights is not enough. A universally applied human rights system is also necessary; otherwise, the universal significance of human rights is empty. The chasm among all countries over human rights protection will widen. Acknowledgement of the particularity of human rights will impel some nations to explain human rights as they please. Ultimately this will bring about a complete collapse of universal human rights standards.

The controversy between the universality and particularity of human rights is not purely theoretical. For very many nations, it means whether each has the right to select its own human rights protection system, and

whether it must give up its own cultural characteristics and accept a foreign human rights standard. In the course of this polemic, developed Western nations that deny that the human rights system should differ on the basis of the national circumstances of each country frequently pose as guardians of human rights, consciously, or unconsciously presenting themselves as a cut above other people morally. This results not only in the rejoinder of the other party having a political and ideological character, but also produces a strong psychological aversion. On 29 April 1993, the Republic of Singapore mailed a copy of its Assistant Secretary for Foreign Affairs, Mr. G. Maheubanni's, [phonetic] letter to the world human rights coordinator, asking that it be distributed at the fourth session of the World Human Rights Conference Preparatory Meeting. He believed that when Westerners talk about human rights to Asians, they always adopt a lecturing attitude, and if any Asian expresses doubt about Western human rights concepts, he is ridiculed as "making excuses for his government." In order to conduct an equal discussion, "on the eve of the twenty-first century, Europeans must stop this attitude toward Asians. This mentality of supposing one is a cut above others morally must be abandoned." [Footnote 1. See UN General Assembly World Human Rights Conference document No. 157, "Agenda Item 5 for the Fourth Preparatory Committee Meeting of the World Human Rights Conference."]

Mr. Maheubanni's view may very well represent the frame of mind of developing countries that face Western censure regarding human rights. For an overwhelming majority of Asian nations, this psychological aversion is even stronger. A look at the recent history of Asia shows that a series of Western nations have been the rulers of this region in one form or another. Many Asian nations were reduced to the status of colonies or semi-colonies for long periods. Westerners are in the habit of disparaging Asians, so even though times have changed and there is a new Asia full of vigor and vitality, they find it hard to get rid of their old ways of thinking.

Furthermore, most regions of Asia are busy dealing with very urgent problems of survival and development. An overwhelming majority of Asians believe that unless they become economically prosperous first, human rights is just empty talk. Human rights ideals are fine, but people living in different circumstances do not have entirely the same understanding of human rights. When a person urgently in need of filling his belly has a choice between a piece of bread and a ballot, you can bet he will choose the former. If anyone criticizes his choice as having no ethical significance, he will certainly reply to his accuser with a snort of contempt.

The real significance of Western nations' emphasis on the universality of human rights is to use this universality as a means of applying pressure on nations having a different social system to promote Western style democracy and freedom. For example, the United States' UN representative said that the United States

believes that elections are the foundation for democratic government. The representative recommended that the UN establish a coordinator to assist elections to help and supervise elections in each country. The Swedish representative explicitly declared that guaranteeing democracy and respecting human rights requires regular changes of regimes and governments, or at least the government concerned should adopt tolerant policies. Otherwise, international society should use appropriate means to make a "clear and concrete reaction." Western nations declare that acceptance of the universality of human rights requires application of the same human rights standards. Important earmarks of this human rights standard include a multi-party system, free elections, freedom of the press and freedom of speech, participation of the people in government, and priority to individual rights, etc. In discussion of the content of the final document for defining the 1993 World Human Rights Conference, Western nations felt that the final document should highlight the following: promotion and advancement of the application of international human rights standards for recognition of the universality of human rights, influencing nations that have not yet carried out their responsibilities for protecting human rights, and specially emphasizing that human rights and democracy are key elements in the promotion of economic development when examining the correlation among human rights, development, and democracy. Asian, African, and Latin America's developing countries held a different view of this proposal. By way of expressing advocacy of the guiding thought and principles of the World Human Rights Conference, Asia, Africa, and Latin America held separate World Human Rights Conference regional preparatory conferences, which passed the "Bangkok Declaration," the "Tunis Declaration," and the "St. Joseph's Declaration." These declarations emphasized that the aim of the World Human Rights Conference should be promotion of cooperation in the international human rights field, and understanding and respect among all member nations. The conference's final document should reiterate the following: All countries, large and small, have the right to decide their own political system, to pursue freely their own economic, social, and cultural development, and to oppose making human rights a condition for the provision of development assistance. Human rights concepts that reflect different historical, religious, and cultural backgrounds must be accorded equal respect. In conducting international human rights activities, nonselectivity, objectivity, and impartiality must be maintained.

Truly, on sensitive and crucial human rights matters about which international society is concerned, cooperation, understanding, and respect among nations is extremely necessary. The system that each nation adopts to protect human rights is a choice. From a philosophical standpoint, no choice can be inherently superior; it is only an outgrowth of the environment. Each choice has its own moral reason. If the people oppose a choice, they will ultimately reject it.

After intense debate, the human rights universality and particularity issue was expressed in the following way in the "Vienna Declaration and Action Program": "The World Human Rights Conference reiterates that all nations solemnly promise to perform their duties under the UN Charter, and other international documents and international laws pertaining to human rights in promoting universal respect, observance, and protection of all human rights and the basic freedoms of all. The universal character of these rights and freedoms cannot be denied." (Article 1) "Admittedly, the significance of ethnicity and regional characteristics, as well as different historical, cultural, and religious backgrounds must be taken into account; however, all countries, no matter their political, economic, and cultural systems, have a duty to promote and protect all human rights and basic freedoms." (Article 5) The Chinese Government highly praised this statement. The deputy chief of the Chinese delegation to the World Human Rights Conference, Jin Yongjian [6855 3057 6943], said that "while recognizing the universality of human rights, 'the Declaration' also requires that the historical, cultural, and religious backgrounds of different nations be considered. This is of positive significance." [Footnote 1—See RENMIN RIBAO, p 6, 27 June 1993] Naturally, not every nation was satisfied with this statement. Some Western nations felt that the document's use of the words, "must consider" the significance of the ethnicity and regional character, and the different historical, cultural, and religious backgrounds was a retreat for the international human rights movement. It was a "disgrace" to the World Human Rights Conference. No doubt, battles on this issue will continue.

2. Human Rights and Development Rights

Development rights are an undeprivable right. This was acknowledged in the "Development Rights Declaration" that the UN General Assembly passed in 1986, which has been generally accepted by international society. However, this was the outcome of a long battle that developing nations waged.

As early as 1948, the UN General Assembly requested the Security Council to draw up, as a priority matter, a draft treaty on human rights. However, serious differences of opinion occurred about the basic content of the treaty. The Western nations insisted that human rights should include only civil and political rights, but the socialist nations and the developing nations proposed that economic, social, and cultural rights should also be basic human rights. Faced with this difference of views, the UN General Assembly declared the following in a 1950 resolution: "The enjoyment of civil and political freedom, and the enjoyment of economic, social, and cultural rights are interrelated. One may not be enjoyed at the expense of the other." "Deprivation of individual economic, social, and cultural rights does not represent the ideal of a free person that the World Human Rights Declaration acknowledges." [Footnote 2—See UN General Assembly resolution no. 421E (V), 1950 published in

"UN Actions in the Human Rights Field," Vol 1, 1990, p 63] In view of the difficulty in including these two different categories of rights in a single treaty, it was decided to draft two human rights treaties. One was a civil and political rights treaty; the other was an economic, social, and cultural rights treaty. In 1966, the task of drawing up the two treaties was completed. In the same year, the treaties were signed, ratified, and acceded to. [Footnote 3. See UN General Assembly resolution 2200 (XXI), 1966 published in "UN Actions in the Human Rights Field," Vol 1, p 65] However, developing nations very quickly encountered huge obstacles in carrying out the economic, social and cultural rights treaty, which restricted the level of their development. Consequently, they raised the social progress and development issue. The Western nations opposed this formulation. They believed that development is only an opportunity. An economic goal does not belong in the category of human rights. This was because recognition of the right to develop means instituting a new international economic order and changing the old international economic structure, but the Western nations are the greatest beneficiaries from the old economic order and the old economic structure.

Despite the Western nations' opposition, in 1969, the UN General Assembly passed "Declaration on Social Progress and Development." This declaration listed the main requirements for social progress and development as follows: national independence based on the people's right of self-determination; the principle of noninterference in the internal affairs of all countries; respect for the sovereignty and territorial integrity of all countries; the perpetual sovereignty of every country over its own natural wealth and resources; and every nation, and every race and people have the right and the responsibility to decide freely their own social development goals and to set their own priorities; to determine, in accordance with the UN charter principles the ways and means they will use to attain these goals without any outside interference; and peaceful co-existence and friendly cooperation among all countries having different social, economic, or political systems. It was on this basis that the developing countries called for the right to develop to be designated a human right. In 1981, the United Nations appointed 15 government representatives to form a work team to study the purview and the content of the right to develop, as well the methods that might effectively ensure that all countries practice economic, social and cultural rights. This was the background to the research report entitled, "Declaration on the Right to Develop."

Although the "Declaration of the Right To Develop" stated explicitly that the right to develop is an undeniable human right in purview, content, and theme, controversy over the right to develop continued unabated.

The controversy over the right to develop and human rights centers around two main issues. First is the connotation of the right to develop. Paragraphs 1 and 2

of the "Declaration on the Right to Develop" makes a full statement about the meaning of development rights. These two provisions in "the Declaration" both emphasize economic and social development, and they also emphasize political development. They emphasize individual rights, and they also emphasize national self-determination and national sovereignty. They emphasize both human rights and basic freedoms, and they also emphasize the individual's obligations to society and responsibilities for development. Each of these pairs in this issue can become the reasons and the basis for differences in view.

Developing countries believe that the central connotation of development rights is economic development. The goal of development is the active, free, and purposeful participation in development of all people and individuals, and in the fair distribution of the benefits that development brings as a basis for steady improvement of the welfare of all the people and every individual. Only when certain economic and social conditions exist can the exercise of civil and political rights be assured. As the Guinea Bissau delegate to the United States said in a speech, "The world is going through enormous changes in democratization and respect for basic human rights. However, without prosperity and tranquility, these desires cannot be realized. Without development, there can be no true progress in democratization. Without a solid economic foundation, democracy can only be an illusion." [Footnote 1—Statement by the Guinea Bissau delegate to the Forty-seventh Session of the UN General Assembly on 5 October 1992]

Effective development means that each sovereign nation has the right to determine its own development policies, and the right to exercise indisputable complete sovereignty over its natural resources and wealth. Developing nations demand that their own national right of self-determination and national sovereignty be respected, and they oppose the use of the human rights issue to intervene in the a nation's internal affairs.

By contrast, developed nations emphasize the political meaning of development rights. They believe that development should center around individuals. It should enable individuals to participate freely in political, economic, and social activities, and that democracy, the legal system, and respect for human rights are key elements in the development process. For example, the French representative to a UN organizational conference said, "The development issue cannot be separated from human rights; development cannot be founded solely on economic objectives. Man must be the subject and not the passive object of development. Therefore, increase in GNP should be emphasized less, and people's participation in government emphasized more." The Australian representative said, "A country cannot curtail or replace the role of the individual because of emphasis on the right to develop. Why is it that the advances individual countries make from the application of economic, social, and cultural rights differ? Internal and external reasons

must be sought. In addition, further examination must be given how to realize lasting development from the promotion of civil and political rights and political freedom."

Clearly, these different interpretations of the meaning of development rights represent two completely different political standpoints. They reflect different ideologies and antithetical human rights concepts.

Second is development rights and the international economic order. Development rights are linked to the founding of a new international economic order. However, according to the 1992 "Human Development Report" of the UN Development Planning Office, inequality in the international economic order is more serious than formerly: The income gap ratio between the richest one-fifth and poorest one-fifth of the world's population increased from 30 to 1 in 1960 to 59 to 1 in 1989. If one considers income distribution in every country, the ratio difference between the richest and poorest countries in the world has increased to 140 to 1. In the Latin American and Caribbean region, the number of poor people increased from 136 million in 1980 to 266 million in 1992. The developed countries comment that the reason that 4 billion people in the world are poor is that their spirit of initiative has not been brought into play, and that it has not been brought into play because their political system is backward. Elimination of development obstacles requires that developing countries first institute political, economic, and social reforms such as political pluralization, ensuring individual freedom, and increasing the rule of law, etc. Developing countries point out in sharp opposition that the inequality of the economic order has resulted from hundreds of years of exploitation and looting. The structure of civilization and society, and the production methods of individual countries have been destroyed together. The ecological systems of Asia, Africa, and Latin American have been seriously damaged. This looting continues today in a new form: steady worsening of trade conditions and heavy debt burdens; the transfer of money from the southern hemisphere to the northern hemisphere, and structural readjustments; developed countries export to developing countries of toxic wastes, and the establishment of polluting industries; the attachment of human rights conditions to development assistance, etc. Consequently, developing nations emphasize the need to promote the building of a fair international economic order as the starting point for the protection of development rights.

The demand of developing countries for the founding of a fair international economic order gained UN General Assembly affirmation. A 1977 UN General Assembly resolution provided that henceforth one of the human rights emphases of the UN system would be "realization of a new international economic order." [Footnote 1—See UN General Assembly resolution number 32/130, 16 December 1977 titled, "UN Actions in the Human Rights Field," Vol 1, p 373] In 1980, the UN Human

Rights Commission held a news conference at which the spokesmen reported the results and recommendations on the "effect of the existing unfair international economic system on the economy of developing nations, and the obstacles this situation creates for the realization of human rights and basic freedoms (particularly the right to enjoy an adequate standard of living that Article 25 of the World Human Rights Declaration declares." One of the most important recommendations was that international financial institutions (particularly the World Bank and the International Monetary Fund) should continue and increase the provision of funds to help all developing nations, particularly the most undeveloped nations' development efforts.

The final document of the World Human Rights Conference also supported the demands of the developing nations. Article 10 of the "Vienna Declaration" solemnly declared: "The World Human Rights Declaration reiterates that the development rights expounded in the 'Development Rights Declaration' are universal, indivisible rights, and are also an integral part of basic human rights... achievement of lasting advances in the enforcement of development rights requires the institution of effective development policies at the top level of countries, as well as creation internationally of fair economic relations and a favorable economic environment." This is deemed a victory that developing nations won in the international human rights movement.

3. Human Rights and National Sovereignty

Following World War II, human rights gradually went from the domestic to the international law domain. However, human rights international protection theory and practice developed widely and rapidly only following founding of the UN. Article 1 of the "United Nations Charter" provides that advancing and stimulating human rights and basic freedoms is one of the purposes of the UN. In order to realize this purpose, other articles of the charter contain specific provisions about how to use the promotion of international cooperation to safeguard human rights.

On 10 December 1948, the UN General Assembly passed the "World Human Rights Declaration," which "serves as a common standard that all people and all nations can strive to realize." On 16 December 1955, the UN General Assembly also passed "International Convention on Civil and Political Rights," and "International Convention on Economic, Social, and Cultural Rights." During the past more than 40 years, the UN General Assembly and affiliated institutions have drawn up more than 60 international conventions on human rights. They cover a broad field of eradication of ethnic discrimination, prohibition and punishment of racial separatism, prohibition of slavery and the selling of slaves, prohibition of cruel punishments and other brutalities, inhumane or humiliating treatment and its punishment, and prohibition of discrimination against women. By way of promoting implementation of human

rights standards in the international arena, the UN system set up institutions at different levels internally for the protection of human rights. During the past more than 40 years, the UN has made tremendous accomplishments in the protection of international human rights.

Just what is the meaning of human rights protection? Just what is the relationship between human rights and national sovereignty in international society? Western nations put human rights above sovereignty, because "the individual is the purpose for which a nation exists." A rather authoritative Western international law author wrote, "Human rights and basic freedoms" have become a feature of the UN charter, and have the character of a legal obligation." "These rights and freedoms are, in essence, no longer matters under a nation's internal control." [Footnote 2. "Oppenheim International Law," Vol 1, Book 1, Commercial Press, November 1971, first edition, p 236.]

Most developing nations and socialist nations support the principle of national sovereignty. They believe that the sovereignty principle is a basic principle proclaimed in the UN charter. "Declaration on Each Nation's Establishment According to the UN Charter of the 'International Principle of Friendly Relations and Cooperation,' which the UN General Assembly passed in 1970, reiterates the basic importance of sovereign equality in accordance with the charter, and it emphasizes that only when all countries enjoy sovereign equality and fully respect the requirements of this principle in their international relations can the goals of the UN be realized." Human rights are rights that are stipulated and ensured by legislation of sovereign nations. Whenever a nation's sovereignty is destroyed, human rights are unavoidably damaged.

In real international politics, the correlation between human rights and national sovereignty is bound up with the authoritativeness of the nonintervention in internal affairs principle and its antithesis, the legality of humanitarian intervention. This is also why antithetical views on this issue are frequently expressed in the form of intense clashes.

The writer feels a sober analysis should be made of the specific circumstances that this clash over the correlation between human rights and national sovereignty engenders. Human rights have become a major issue about which international society is concerned. This is a fact. Human rights is also an issue about which human society has made advances of major significance. On the other hand, the principle of sovereignty remains a universal standard in international society. It has not, and it will not, become outdated. The core of international protection of human rights is international cooperation, and cooperation is realized through sovereign states. Article 4 of the "Vienna Declaration" contains the following statement: "The advancement and protection of all human rights and basic freedoms must be regarded as a primary goal of the UN that is in keeping with the

purposes and principles of the UN, particularly the purpose of international cooperation. The advancement and protection of all human rights within the framework of these purposes and principles is a legal concern of international society." Without international cooperation, neither any nation nor international society can impose human rights model, no matter how wonderful, on a sovereign country. Because individuals live under the legal order within a country, under most circumstances, they have no way to seek human rights protection through appeal to the international legal system. The citizens of some nations can appeal to a regional human rights protection organization on the basis of a bilateral or multilateral treaty; however, this still depends on whether the country to which the citizens belong accepts the treaty obligations.

Effective international cooperation requires mutual respect among all countries. Any country that uses human rights as a pretext for interfering in the internal affairs of another country is unpopular, and it will not achieve its aims. If interests and political capital are built up behind human rights slogans, and used in the service of hegemonism, this is another form of trampling human rights.

Of course, large scale transgressions of human rights such as race prejudice, genocide, slavery, terrorism, etc., usually cannot be resolved through international cooperation. Under such circumstances, international society must adopt more effective measures to make the nations in which large scale transgressions of human rights are occurring change their ways. Even under these conditions, maintenance of a dialogue between the transgressor nation and international society is necessary.

In short, human rights and sovereignty do not have to clash with each other. One important responsibility of international human rights protection is to employ all means to get sovereign nations to live up to their own human rights obligations to spur real advances in human rights matters.

4. Ordinary Human Rights and the Human Rights of Women, Children, and People Who Belong to Minority Groups

According to the UN charter, "The advancement and encouragement of respect for the human rights and basic freedoms of all mankind without regard for race, sex, language, or religion, is an aim of the UN." In attainment of this aim, six major organs of the UN (the UN General Assembly, the Economic and Social Council, the Security Council, the Trusteeship Council, the International Court, and the Secretariat) bear responsibilities for ensuring human rights and basic freedoms, and play a positive role in this regard. In addition, four UN special agencies (the International Labor Organization, the United Nations Education, Science, and Culture Organization [UNESCO], the World Health Organization [WHO], and Food and Agriculture Organization

[FAO] also conduct widespread activities in an unflagging effort to promote and ensure human rights. Since the mid-1960s, the UN has set up six human rights supervisory organs (the Committee for the Elimination of Race Prejudice, the Human Rights Affairs Committee, the Committee to Eliminate Discrimination Against Women, The Committee to Halt Torture, the Economic, Social, and Cultural Rights Committee, and three man teams) for the monitoring of the enforcement of the provisions of conventions of countries that have approved or take part in certain conventions. These institutions form the main part of the UN's human rights protection system. They draw up, supervise, and promote enforcement of international human rights standards.

So has the work of the UN human rights protection system truly advanced universal human rights? The answer of most UN officials is affirmative. However, some people concerned with protection of the human rights of women, children, and members of minority groups do not agree with this evaluation. They point out that within the international human rights legal framework, frequently it is frequently women, children, and members of minority groups who do not enjoy universal and binding human rights protection. The human rights of women, children and members of minority communities are marginalized. Some nongovernment human rights organization activists have even said that the existing UN human rights protection system has major flaws. It ignores protection of the groups whose human rights are most prone to infringement, which it to say, that in practice, it places the rights of these people outside the international human rights legal structure.

The sharpest criticism comes from women who say that in matters having a bearing on women's human rights, failure of the UN human rights mechanism to respond as fully as it might is a major reason for their discontent. First of all, males hold the dominant positions in UN human rights organs, and most of the working personnel are also males. Most women employees of the UN hold low level position. They are unable to express women's demands within the UN system. Second, the agencies that draw up the framework and protect human rights are separate from the agencies responsible for supervising how well nations observe their responsibilities to protect women's rights. Consequently, human rights organs avoid the problems that concern women. They feel that the Committee on the Status of Women and the Committee for the Elimination of Discrimination Against Women are the proper places for the consideration of women's issues. This results in women's rights issues not having an important place on the agenda.

For example, although the "Convention To Eliminate All Forms of Discrimination Against Women" has been approved by 121 nations, and is deemed to be the most welcome of all international human rights documents, its actual role is not as good as had been imagined. Women's rights experts note that the promises that the convention makes to women are superficial. Every

nation holds real reservations about them, and even the provisions about which they have no reservations are not put into effect. There is no international controversy about this. "The Convention" defines women's equality as attainment of the same standard as for men. Thus, women have gained a guarantee of no discrimination in political and public life, as well as no discrimination in civil rights, nationality, education, and before the law. However, one important and ignored fact is that women frequently operate in different fields than men. In these fields, women do not get the protection of "The Convention." Investigation also shows discrimination by the UN system in the allocation of money for women's rights agencies; consequently, the conference time of the Committee For the Elimination of Discrimination Against Women was less than for another other treaty organization conference.

The status and role of women's rights protection in UN agencies strongly reflects the unfairness of the theoretical framework of international human rights law and the actual system. First, the substantive definition of human rights in many international documents does not include the main issues of concern to women. Second, historically, the human rights protection mechanism has highlighted civil rights and political rights methods, with the result that the larger economic, social, and cultural rights about which many women are concerned have been relegated to a secondary position. Third is a tendency to be concerned with government conduct that violates individual rights, placing much nongovernment conduct that violates women's rights outside the protection system. Examples include crimes such as family violence, sexual harassment in the workplace, and the selling of women for which women frequently are unable to obtain effective legal remedies.

In this connection, women's rights organizations have pointed out, first, that the UN should make obstacles to women's enjoyment of human rights a priority in human rights work. Such obstacles include violence against women, erroneous development concepts and strategies that deny the right to make health care and childbearing choices, and use of cultural, religious, and ethnic reasons for denying women human rights, etc. Second is revamping of the international conception of human rights, making them concepts about which women are truly concerned. For example, the present international human rights protection mechanism emphasizes national responsibilities; thus, it cannot bring into the category of human rights violations numerous kinds of conduct that violate women's rights. The emphasis on civil rights and political rights also does not sufficiently protect women's interests, because very many of women's human rights are concerned with economic, social, and cultural rights. Third, the UN should beef up its women's human rights enforcement and supervisory institutions. Numerous problems exist in the enforcement of international human rights, the biggest problems being in the women's rights field. The "Convention on Elimination of All Forms of Discrimination Against

Women" not only noted no enforcement mechanism for other than reporting, but no provisions for individual appeal, or appeal among countries. Fourth is enhancement of the Committee for the Elimination for Discrimination Against Women and the Women's Status Committee. These two committees are concerned with the differences between men and women; thus, they play an important role in the protection of human rights. In addition to these demands, the women's rights organizations also called for balance between the sexes in UN human rights agencies, doing more training regarding the sexes, etc. [Footnote 1. See "World Human Rights Conference, Fourth Preparatory Committee Agenda 5"] Although many UN officials take exception to these demands, and are quite reproachful, the UN secretary general said in his published goals that the ratio between males and females among high ranking employees should be equal, i.e., 50 percent of each, by the fiftieth UN anniversary in 1995. [Footnote 2—"Convention on Elimination of All Forms of Discrimination Against Women."]

One other group whose rights are not yet fully protected is children. Although the UN's concern for the rights of children may be traced back to 1946, it was not until 20 November 1989 that protection of the rights children was normalized and given the force of law when the UN General Assembly passed the "Children's Rights Convention." Although 136 nations have ratified the "Children's Rights Convention," children's rights protection has not improved markedly in most. UN statistics show that about 100 million children in the world have been abandoned by their families, and that they are relying on their own strenuous labor to survive, or they commit crimes, sell drugs, or beg for a living. More than 50 million children are working under unsafe or unhealthy conditions; 120 million children have no employment opportunities; and 3.5 million children die every year from illnesses that could have been prevented or cured. In developing nations, approximately 155 million children under five years of age live in abject poverty, and nearly 1 million children—including many children in fairly affluent societies—suffer from abuse and neglect. They are sexually exploited or become victims of drug abuse. [Footnote 1—See "UN Introduction to the State of the World Human Rights Movement, No. 10," published by UN Geneva Office, Human Rights Center, Chinese text, p 2.] During armed clashes and civil war, in particular, children frequently become destitute and homeless because of political violence. In some places, poverty results in the sale of children, false adoption, or deprivation of children's rights. The sale of children's body organs, and the organization of children for prostitution have become businesses.

In order to improve the status of children's rights, the UN must urgently take action on the following matters: universal ratification of the "Children's Rights Covenant," and eradication of all reservations that contravene the "Convention's" goals and aims, and international treaty law; creation of a mechanism within

the purview of the UN Children's Rights Committee to receive denunciations and materials about serious violations of children's rights; make sure to bring into play the role in the family in protecting children's rights; set up various mechanisms to protect children in extreme circumstances, such as the violence that children sustain during armed conflict and the elimination and brutal treatment of children during "social purification." Emphasis must be placed on solving the problem of economic exploitation of children such as child labor, child prostitution, smuggling and sale of children, servitude for debts, etc.

Because of the numerous fields of children's rights protection in need of improvement, in 1993, the World Human Rights Conference reiterated the principle of "children are most important of all." In the "Vienna Declaration," "children's rights" are a main topic, and many references are made to the need to improve pertinent mechanisms in the UN system, regular examination and monitoring, and matters pertaining to the rights and plight of children.

Protection of the human rights of people in minority groups has been a goal that the UN has openly pursued for the past more than 40 years. However, progress has been slow in the task of drawing up standards for making special arrangements for the human rights of people in minority groups. In most nations, the majority of people have a common historical and cultural background, but a minority have a different nationality, race, religion, or language. To a considerable degree, the UN's human rights mechanism's nondiscrimination principle has been formulated to protect the human rights of people in minority groups. Virtually all UN human rights documents emphasize the nondiscrimination principle. In discussing the reasons for not permitting discriminations, virtually all these human rights documents mention the almost universal circumstances in which minority groups and their individual members may be deprived of equal treatment. However, the actual situation is frequent clashes between the majority and the minority, and between one minority and another. The violence and the destruction that these clashes cause lead to suppression that threatens the unity of the country. Sometimes it spills over into neighboring countries. Therefore, the Minority People's Human Rights Organization calls for the minority people's human rights issues to be given a central position within the UN system. The UN Human Rights Committee should set up a work team on minority people issues to discuss problems about which action should be taken at an early date. They say that if the rights of minorities cannot be protected effectively, universal human rights is an empty phrase.

5. Government Human Rights Organizations and Nongovernment Human Rights Organizations

By so-called government human rights organizations is meant, first of all, international human rights organizations within the UN system in which the governments of

all countries participate. Second, it means the human rights organizations in the international government system of sovereign nations. Nongovernment human rights organizations at the international level are not human rights organizations established on the basis of international agreements or agreements between one nation and another. Within every sovereign nation, they are not human rights organizations within government institutions.

Nevertheless, in accordance with resolution 1298 of the UN Economic and Social Council of 25 June 1958, although, in principle, international nongovernment human rights organizations have no connection with the governments of each country, they may include "organizations that accept certain government-appointed members on condition that these members may not interfere in the free expression of the organization's points of view." [Footnote 2—See UN Economic and Social Council resolution 1298 of 1958 in "UN Actions in the Human Rights Field," Vol 2, published by the UN in 1990, p 725] The Union of International Associations [UIA] registers those nongovernment organizations that the UN recommends and that are in keeping with the standards set by the Economic and Social Council. The UN Economic and Social Council relies on nongovernment organizations to provide counsel to UN specialized agencies. These nongovernment organizations are in three categories. First-category international nongovernment organizations have the right to provide written reports to specialized agencies of the UN, to take part in Economic and Social Council hearings, and to make recommendations for the agenda of the Economic and Social Council and its subordinate agencies. [Footnote 3—See *UIA International Organizations Yearbook*, 1988/1989, UIA Press.] The nongovernment organizations in categories 2 and 3 have relatively little capability for taking part in the activities of the UN Economic and Social Council.

No matter the category of a nongovernment organization, it must meet the following conditions in order to qualify for a position as consultant to the UIA. First, it must provide services in fields in which the Economic and Social Council is interested; second, its efforts are not motivated by profit; and third, it has the means to realize goals. Because the number of nongovernment international organizations is constantly increasing, but the number to which the UN accords a consultant status is limited, many nongovernment international organizations criticize severely the Economic and Social Council's methods. They point out that because of their privileged position and in order to protect their own privileges, nongovernment organizations that have a consultant status have been "co-opted" while many nongovernment organizations that work hard to protect human rights have been ignored.

The domestic nongovernment organization problem is even more complex. Nongovernment human rights organizations have proliferated rapidly in many countries in

recent years to become a major force for the protection of human rights and as mechanisms for supervising human rights. However, there is still no general agreement about nongovernment organizations in sovereign nations; consequently, conflicts and clashes arise among nongovernment organizations.

A popular idea in Western society is that the core elements of nongovernment organizations are several: First, their source of funds must be other than the government. They may not accept government disbursements or assistance. This is regarded as the key in safeguarding the independence of nongovernment organizations. Second, none of their activities may be led by or interfered in by the government and agencies belonging to it. Activities are independent in accordance with the organization's objectives. Third, although nongovernment organizations are not anti-government organizations, nongovernment organizations and government organizations diverge as spokesmen for the grassroots. The fact is that in some countries, nongovernment human rights organizations frequently challenge the government's human rights policies, or they may point out more problems in the human rights system. In short, nongovernment organizations feel that independence and autonomy are the key elements of nongovernment organizations.

At the 1993 World Human Rights Conference, intense controversy raged over what is really a nongovernment organization and who is really a nongovernment organization. Those who emphasized the nongovernment model just cited condemned the nongovernment organizations of some countries as being "false flags" or "government-organized nongovernment organizations." However, nongovernment organizations in Asia, Africa, and Latin America expressed strong indignation at this condemnations. They pointed out that Western society's efforts to impose its own ideas had been exposed once again on the nongovernment organization concept. In very many developing countries, nongovernment organizations do not have the economic resources that nongovernment organizations in developed countries have; furthermore, public funding is not necessarily linked to political attitude. Everyone accepts that nongovernment organizations are independent, but independence does not mean opposition to society's political authority. In other words, the attitude adopted toward the government should be the free choice of nongovernment organizations. To prescribe a model for these organizations is in itself a violation of the principle of independence and autonomy of nongovernment organizations.

Despite all this controversy, both internationally and within each country, the positive role of nongovernment organizations in the human rights field has been affirmed. In addition, nongovernment organizations have become more and more active. This was manifested prominently at the 1993 World Human Rights Conference. Nongovernment organizations proceeded in parallel with the conference preparatory committee in the

conference preparation process, and they also set up a Joint Non-Government Organization Planning Committee. The mission of this committee was to organize and assist the activities of nongovernment organizations before and during the conference. A total of 171 nongovernment organizations formally registered as World Human Rights Conference observers, 80 percent of them having UN Economic and Social Council-acknowledged consultant status. Most of them came from Africa, Latin America, and Asia. Nongovernment human rights organizations flocked to Vienna, virtually creating a "tail-wagging-the-dog" situation, and becoming a major feature of the 1993 World Human Rights Conference.

Before the formal opening of the World Human Rights Conference, nongovernment organizations held a three day forum from 10 through 12 June 1993. The name of the forum was, "Everyone Enjoys All Human Rights." Its purpose was to provide all nongovernment organizations—particularly nongovernment organizations not taking part in the official conference—an opportunity to express their views. The nongovernment organization forum set up five work teams, the recommendations of each work team serving as the nongovernment organization forum's contribution to the World Human Rights Conference published final report. [Footnote 1—See UN General Assembly Human Rights Conference document number 157, "World Human Rights Conference," Ad Hoc Project Agenda No. 12.]

In addition to the three day forum, throughout the entire World Human Rights Conference, nongovernment organizations from some countries held all sorts of exhibitions, some of them holding fairs at which they sold various souvenirs marking human rights. Some organized simulated courts that conducted simulated trials of crimes in violation of human rights committed in the Bosnia-Herzegovina conflict. Some held hearings. An example was a hearing in which South Korean women who had been forced to serve as comfort women for the Japanese Army took the stand to tell their own experiences, making the audience weep. Naturally, these nongovernment organizations were of many different kinds. Western model nongovernment organizations accounted for only a very small portion. This also showed that there cannot be just a single pattern of nongovernment organization and activities. The Human Rights Conference's final document referred to the major role of "Recommendations of Inter-Government Organizations and Non-Government Organizations" [Footnote 1—"Vienna Declaration," Foreword], and "Official Documents Confirming Non-Government Organization Effective Enforcement of All Human Rights." Prospects are that international nongovernment human rights organizations will become increasingly active. Their energy cannot be underestimated.

In recent years, China has also set up some nongovernment human rights organizations that have conducted wide-ranging investigation and study in the human rights field, and that have participated actively in international

conferences and activities concerned. This holds important significance for conduction dialogue and exchanges between Chinese nongovernment human rights organizations and international nongovernment human rights organizations.

The dissension in the international rights field described above reflects the complexity of the international human rights movement. All sorts of cultural traditions, life styles, and derivative philosophical ideas exist on this globe; consequently, there are different human rights ideas. However, fabrication of antagonisms and confrontations from these different views is the inevitable result of the polemicizing and politicization of the human rights issue.

Politicization of the human rights issue has led to a double standard and choices on the human rights issue. The choice of human rights standards for any given place or any given target has become entirely twisted to benefit one's own interests. This has become the habitual behavior of certain Western countries. It is this very behavior that has changed international cooperation to difficulty in the human rights field.

By way of giving impetus to the development of international human rights endeavors, the 1993 World Human Rights Conference reiterated the need to ensure universality, objectivity, and nonselectivity on human rights issues. But this is not enough. Permitting diversity and equality of human rights concepts and human right theories is equally important. Certainly, different human rights concepts do not interfere with common understanding of human rights standards. This common understanding constitutes the content and norms of international society's human rights documents. Promotion the co-existence and cooperation of different concepts will become a requirement for progress in the international human rights movement.

Rise of Leftist Tide in Reform

95CM0053A Hong Kong KAIFANG [OPEN MAGAZINE] in Chinese No 94, 1 Oct 94 pp 16-18

[Article by Ts'ai Yung-mei (5591 0737 2734): "The Rise of a Leftist Tide During the Birth Pangs of Reform—Two Anti-Deng Factions Collaborate"]

[FBIS Translated Text] *In mid-July, a socialist forum directed against Deng Xiaoping's reform line was held at Capital Steel. Both new and old leftist factions have been exceptionally active recently. What is behind their constant rallies? And who is supporting them?

On 18 July 1994, an exceptionally unusual forum was held at Capital Steel in Beijing. While the forum's official topic of discussion was "Socialism and Today's World," insiders say that the meeting was actually one to criticize Deng Xiaoping's reform line, with the traditional leftists in the CPC using Cultural Revolution semantics to all but damn Deng Xiaoping by name,

faulting Deng for being a revisionist capitalist roader, and touching off quite a powderkeg.

Surprisingly, the forum was actually attended by several young foreign students, such as Wu Ch'in [0702 2953], a U.S. economics PhD and editor in chief of *S&T and Development*, and MIT Political Science Assistant Ts'ui San-yuan [1508 0005 0337], both of whom also presented an essentially negative criticism of China's current reform line in a theoretical style borrowed from the West.

The Original Plan Was To Hold a World Socialist Congress

In fact, this forum was sponsored by these self-styled-socialist foreign students. It is understood that they had originally planned to hold a "World Socialist Congress," for which they had already sent out the announcements, as well as inviting participants from Eastern Europe and Russia, and certain Western socialists. But once this was reported to the authorities who realized the sensitivity of the issue, it was not approved, so was shrunk in scope to become a domestic forum, with the foreign guests disposed of by being accompanied by the sponsors on a several days tour of Beijing City.

Another strange event involved *Viewing China Through a Third Eye*, a book written under an assumed name that became so notorious both in China and abroad. Under repeated pressure by a Hong Kong journalist, its [supposed] translator, Wang Shan [3769 1472], admitted that its so-called German author, "Luo Yi Ninggeer," was essentially a fabrication, and that he [Wang Shan] was the real author. But before long, Beijing sources reported that Wang Shan was also merely the writer, with the instigator still behind the scenes. The chief designer of this book was Pan Yue [3382 1471], the lucky son-in-law of Politburo Standing Committee Member and Military Commission Permanent Vice Chairman Liu Huaqing, and a figure in the crown prince faction. It is understood that the plot was hatched in 1991, with this memorial by a well-known member of the crown prince faction that shocked the outside world having been engineered by Pan Yue, whose background and political leanings can be easily imagined. Certain mainland academics hold that the book represents the political views of a group of young leftists.

Since the beginning of 1994, the CPC authorities have exercised the most severe control over speech, the press, and publication since 4 June [1989], leaving liberal intellectuals generally feeling mentally stifled. But during these six months when rightists have been kept silent, a leftist tide has bloomed, to become extraordinarily active. The abovementioned two events are quite obvious examples of this.

In contrast to the resurgence in leftist ideology right after 4 June, the current leftist tide has new components and features. That leftist tide was a political reaction to the

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1989 democracy movement and the collapse of communism in Eastern Europe, while this one has risen as a movement to reflect on and criticize reform while China is entering the post-Deng age and economic reform is undergoing labor pains, having a widespread social foundation from top to bottom.

The Leftist Activity Is Encouraged by the Authorities

The known fact is that this leftist activity has clearly been consciously encouraged by the authorities. In late January 1994, the CPC suddenly called its largest-scale national propaganda conference since 1957, declaring that it was beginning a full-scale ideological tightening, at which meeting Jiang Zemin sang the same old tune "against peaceful evolution," putting a chill on ideological and cultural circles. Then in April and May, when China was in a politically sensitive period about the 4 June anniversary, the authorities acted as if they were facing a great enemy, using severely iron-handed means to nip all political dissent in the bud, creating a scene of desolation in the ideological arena. And traditional leftists, such as Deng Liqun [6772 0500 5028] [Standing Committee Member of the Central Advisory Commission], have been treated with special leniency, with this six-month period having seen the leftist faction headed by Deng Liqun repeatedly active, setting off an anti-Deng tide of unbridled attacks on Deng Xiaoping's reform line, which there has been no attempt by the authorities to curb. Beijing sources say that Deng Liqun has been beaming with pride during these six months, with his home much visited, and quite a large volume of activity.

The analysis of some journalists is that "when a left wind blows up in China, it comes from the [CPC] General Secretary." The left wind that blew up prior to Deng Xiaoping's 1992 southern tour was whipped up by a speech by [General Secretary] Jiang Zemin on 1 July 1991, in which Jiang spoke out boldly against peaceful evolution, and which was eulogized by leftists such as Deng Liqun as a new "Communist Manifesto." *Viewing China Through a Third Eye* holds that Jiang Zemin's administrative program shows that he will "pick back up the means of control that proved effective in previous generations, such as the CPC's traditional thought intimidation and ideological dictatorship."

Since late 1993 and early 1994, Jiang Zemin has slipped back into his old ways, taking another clear left turn in his political stand. This is probably a political judgment made by Jiang Zemin in consideration of the power struggle in the post-Deng era.

In the CPC power layout, there is a conflict between the power center of Jiang Zemin, Li Peng, and Zhu Rongji and the power periphery of Qiao Shi, Li Ruihuan, and Yang Shangkun, as well as one between the Jiang, Li, Zhu central authority and local authorities. As Deng Xiaoping's health deteriorates, these two conflicts and clashes are growing ever sharper and approaching a

showdown. Jiang, Li, and Zhu, to preserve their established power, are bound to grow more conservative ideologically, proof of which is the reintensification of control over thought and speech by the CPC authorities since the beginning of 1994. Central Propaganda Department Director Ding Guan'gen [0002 7070 2704] recently sent a notice to all major publications and radio and TV stations, ruling that these press units must submit their news layouts and programs one week in advance to the Central Propaganda Department for examination and approval. Such severe press scrutiny has aroused a strong response in press circles.

The Social and Political Factors in the Leftist Tide

But this rising leftist tide has even more complex social and political factors. Since Zhu Rongji's macroeconomic regulation and control policy went into effect in the summer of 1993, exploding the bubble economy caused by the real estate fever touched off by Deng Xiaoping's southern tour, and since China has changed from the closed, totalitarian society of Mao Zedong's era to the semi-open, authoritative one of Deng Xiaoping's time, the many social conflicts and abuses caused by the social change from a socialist centrally planned economy to a capitalist free market economy have not only been surfacing one after another, but have also accumulated to the verge of an explosion crisis. These include persistently high inflation, a growing gap between rich and poor, injustice in the redistribution of public wealth, official corruption, cultural devaluation, deteriorating public order, unemployment faced by state-enterprise workers, and a deepening agricultural crisis.

It is quite obvious that China's economic reform has declined from its peak at the time of Deng Xiaoping's southern tour, having moved from the glorious honeymoon to the pangs of childbirth, with the one-sided optimism about reform having gradually been overwhelmed by cries of loss, confusion, disillusionment, and anxiety.

While the Chinese used to have a sympathetic mindset toward Eastern European and Russian reform, rejoicing that they themselves had taken the right path, they have now suddenly discovered that China is certainly not more fortunate than them [the Eastern Europeans and Russians]. Most recent Beijing sources say that no one is laughing anymore at the change in Eastern Europe. They hold that Russian and Eastern European reform has already bottomed out and is gradually reviving, while Chinese reform birth pangs are just beginning, with the most difficult period not yet arrived, as the system conversion was not complete, so that China's birth pangs are likely to be longer, more painful, and sharper.

These reform birth pangs are bound to touch off reflection about and criticism of reform. Since the summer of 1993, three books have come out that can be seen as being representative of this reflection about and criticism of reform.

1. The first one is actually a shared paper, or a state of the nation report by two young scholars studying in the United States, Hu An'gang [5170 7254 6921] and Wang Shaosheng [3769 7300 3932], who negate the orthodox reform line of division of power and devolution of interests that has been pursued by the CPC authorities for some dozen years, advocating that it be replaced by a power-retrieval policy to reinforce Central fiscal capability. This report conforms largely to the neoauthoritarian mindset of Jiang Zemin and Zhu Rongji.

2. The second one is *Viewing China Through a Third Eye*. This work under an assumed foreign name fully and systematically criticizes Deng Xiaoping's reform line, holding that Deng Xiaoping's whole reform construct is built on well-intentioned fantasies that do not necessarily conform to Chinese realities. This book's obvious political leanings have touched off a great debate within the CPC. It is understood that those in the Deng faction are very resentful about it, with the Central Military Commission having taken the clear stand that the book's contents are quite reactionary. But Military Commission Chairman Jiang Zemin enjoyed it very much. And the consistently conservative Beijing Party Committee has also recently made a special purchase of 700 copies, which it has presented to its subordinate cadres for study and review.

A Harsh Criticism of the Bewildering Reform Status Quo

3. The third book is the recently banned *The 1993 Decision—Who Are the Ugly Chinese?* While the author Liang Xiaosheng [2733 2556 5116] is certainly not a leftist, even being a writer who hates the extreme left bitterly, his book does painfully describe and censure the many bewildering conditions and human degeneration produced by reform.

While it is understood that certain liberal intellectuals who are ardent defenders of reform have criticized Liang Xiaosheng, saying that his book is likely to help leftists, intellectuals do have the duty to judge public matters. Moreover, Chinese reform is certainly full of abuses, flaws, and congenital defects.

It needs noted that in this leftist resurgence, there are two leftist factions. 1) The first are the traditional leftists of the Deng Liquefaction, who pose as orthodox Marxist-Leninists, exploiting reform problems under the banner of defending socialism and pursuing justice, in an attempt to reverse reform and restore Maoism. So they are called by mainland theorists the *original Marxist creed faction*.

As this faction has strong political motivations and ambitions, its disruptiveness to reform and the political status quo are not to be underestimated.

2. The second faction consists of figures such as Hu An'gang, Wang Shaosheng, Wu Ch'in, and Tsui San-yuan, who mainland theorists call the *neoleftists* or

neo-Marxists. While most of them have grown up since the Cultural Revolution, so do not have painful memories of China's darkest political age of Mao Zedong, they do personally feel that China's social change has brought spiritual pain to the weakest through its social disorder, loss of values, and sharp and ruthless competition, so has unexpectedly produced utopian illusions and yearnings for order and authority.

A scholar affiliated with the CASS notes that: Some of them are sincere scholars. But while their theories are merely intellectual opinions without political background, their views are well-received officially, so that they objectively are coincidental bedfellows with the original Marxist creed faction of the likes of Deng Liquefaction, likely to be exploited politically by officialdom and the Deng Liquefaction.

Concern About the Rise in China of a Homeni

It is of concern that China's current new and old leftist factions both have undeniable social foundations, with all of the weak who are disadvantaged in the course of redistribution of social wealth, such as state-enterprise workers, the unemployed, and low-income middle and petty intellectuals, likely to become their theoretical supporters. Certain mainland academics are concerned that Chinese society has always "been concerned more about inequality than poverty," with the equalitarian ideology cultivated in the Mao Zedong era so deeply rooted and customary that it is hard to change, so that if at this time of great change, a figure like Iran's Homeni who appealed to all arose in China, the society might experience irreparable chaos.

While it is precisely because this leftist tide implies such explosive danger to China today that the authorities find it hard to close up with it ideologically, they are still maintaining a high degree of vigilance toward leftist activity. The authorities have recently taken a series of steps to slightly suppress leftist arrogance, such as removing two leftist go-getters, All-China Federation of Literature and Art Circles Party Secretary Lin Mohan [2651 7817 3211] and China Writers Association Party Secretary Ma Feng [7456 3536], from their posts.

As Chinese ideological debates are often intertwined with inner-party power struggles, the most recent leftist upsurge has also touched off a sharp confrontation of inner-party thinking.

It is understood that at a crucial Central Propaganda Department meeting in August 1994, the radical reform faction within the party harshly criticized the leftist tide, with Zhou Ruijin [0719 3843 6855], one of the authors of the former Shanghai "Huangpu Ping" who was reassigned to a key post at RENMIN RIBAO [PEOPLE'S DAILY], noting quite rousing that Deng Xiaoping had issued clear instructions on his southern tour that the ideological issue of socialism vs capitalism should not be a matter of debate, as well as that it was mainly the left

that needed guarded against, which instructions still had guiding significance.

The most recent signs show that the Jiang Zemin ruling faction, based on stability considerations, has decided to quell this leftist debate, as well as to stop using such sensitive terms as "peaceful evolution" which are so associated with reversing Deng Xiaoping's southern-tour verdict.

At this time of such great historic change in China, drastic social change, public insecurity, and the emergence and engagement of various ideologies are inevitable. The rise of the leftist tide has social grounds. Moreover, as to either suppressing or endorsing reform, as long as it is not exploited by political influence, it naturally has positive social significance and merit. But in China's current complex political climate, vigilance against the left seems still indispensable.

National Affairs, Policy

Wu Jinglian on Key Economic Reforms for 1995

95CE0140A Beijing JINGJIXUE DONGTAI [ECONOMIC DYNAMICS] in Chinese No 10, 18 Oct 94 pp 4-6, 15

[Article by Wu Jinglian (0702 2417 8834) of the State Council's Development Research Center: "China's Key Economic Reforms for 1995"]

[FBIS Translated Text] *Editor's note: This is the text of the author's speech at an international meeting on "The Next Steps in Reform of the Chinese Economic System." Due to space limitations, it is published here in abbreviated form.*

In 1992, the 14th National Party Congress of the CPC established building a socialist market economy as a goal. In 1993, "Decisions on Building the Socialist Market Economy" was passed by the Third Plenary Session of the 14th CPC Central Committee. This further laid out a clear blueprint for China's socialist market economic system.

According to the Central CPC's above decisions, beginning at the start of 1994, the Chinese government has taken a series of important reform steps in such areas as finance, taxation, foreign currency administration, the enterprise system, the social security system, etc. At the beginning of this year, progress in the five areas just mentioned were not exactly the same. Each reform measure which has been implemented has played a major role in stabilizing the economy and promoting development. In the first half of this year, China's GDP increased 11.6 percent; the value of industrial growth increased 15.8 percent (including a 5.3 percent increase in domestic industry). Next year, reform in each area will be accelerated on the basis of this year's work, in order to promote the deep and extensive reforms.

I. Progress and shortcomings of reform during the first half of 1994

Of all the areas in which reform measures were taken this year, taxation reform and foreign currency administrative system reform went the most smoothly; the new systems have begun operations; financial reform has progressed slowly; enterprise system reform and social security system construction are still in the study phase, with proposals for organizational preparation.

(1) Two reforms have gone smoothly

1. The anticipated goals for the taxation system were successfully accomplished in the first reform stage. The general framework of the new taxation system has been formed, and the financial reform to categorize income according to types of taxation has also been accomplished. At present, the taxation system is operating normally, and it has also had a positive effect on China's fiscal situation. This year, China's financial revenues have continued their rapid growth. In the first half of

the year, the state had 197.9 billion yuan in revenue, an increase of 22.6 percent over the same period last year; included in this was a 11.5 percent increase in the Central government's revenue, while local revenue increased 39 percent. The nation's financial expenditures were 197.3 billion yuan, which was a 27 percent increase. Revenue and expenditures generally broke even, basically keeping in balance.

2. An important reform in the foreign currency administration system was the merging of foreign exchange rates for regular projects. The dual exchange rate system was abolished, replaced by a foreign currency trading system between banks and enterprises and the establishment of a foreign currency market among banks. Looking back at the situation for the first half of this year, the new foreign currency system is running normally, and has had some notable achievements: foreign currency rose a bit while remaining stable, the nation's foreign currency reserves increased, the foreign currency trade among banks was active and the import-export trade continued its good developmental trend, and foreign direct investment increased. In the first half-year, foreign investors actually invested US\$14.2 billion, which was an increase of US\$4 billion over the same period last year.

When implementing reform of the foreign currency administration system in 1994, the foreign trade administration system also made new progress. The focal point of the foreign trade administration system is first, to fulfill foreign trade enterprises' right to self-operation, developing export-oriented enterprise groups according to the demands of the modern enterprise system. Second is to gradually bring in a system of public invitations for bids on quotas and auctions, while greatly reducing import-export quotas. During January to June, China's total volume of imports and exports increased by 25.4 percent over the same term last year.

(2) Three other reforms remain backward

1. There have been no significant breakthroughs in establishing the new financial systems: (1) The Central Bank has been given the right to handle basic currency and regulate the loan scale for the General Bank of the People's Bank of China, abolishing the profit reserve system for branch organizations of the People's Bank below the provincial level; it ended the linkage between fiscal deficits and the Central Bank's basic currency, finances will no longer be declared as deficit loans to the Central Bank, and deficits will be worked out through issuance of treasury bonds. However, organs in the People's Bank of China's organization have not been regulated,

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their independence has not been guaranteed, and research is still needed on the applications of such indirect regulatory methods as public market operations, discounting of bills, etc. to direct regulatory methods such as loan limits, etc. (2) The major reason for not attaining the anticipated achievements in fiscal reform has been the slow progress in commercializing and making enterprise operations of the State-owned specialized banks. Since the start of the year, state-owned specialized banks have done some work in strengthening concentrated and unified management inside the system, strengthening the internal managerial system and proposing asset loan bearing rate management, etc. However, in a situation where loans have incurred deep negative interest rates in the first half year, specialized banks had to control loan projects chiefly according to administrative orders and taking administrative measures; corruption among bank officers was also difficult to stop.

2. Enterprise Reform

The reform of establishing a modern enterprise system (the modern corporation) among state-owned enterprises was still at the stage of organizing forces and discussing and studying plans during the first part of the year. The experience of voluntarily "bringing in capital to rebuild" (importing domestic and overseas capital to restructure enterprises) in some localities still needs to be concluded. There are as many as 10,000 trial experimental sites for corporate system enterprise; however, many shareholders' rights have not been clearly distinguished from the corporations' legal person property rights. Nor has corporate governance been established; it is still under the leadership of the original administratively responsible organization, being supervised by managers who were directly appointed by them. The result is that although the titles have changed, the "father and son relationship" that has existed between government and enterprises is still as it was. This sort of situation in the reform of State-owned industrial enterprises, which constitutes 4 percent of the growth value of Chinese industrial production, is extremely unfavorable to developing and stabilizing the economy. For systemic reasons, there are still very large losses in state-owned enterprises, which becomes an important reason why inflation cannot be reduced to a considerable degree. Plus, the continual backwardness of State-owned enterprise reform has restricted reforms in other aspects. It formed a certain type of pressures which exert a backward drag on fulfilling reform: for instance, some trades which had been accustomed to favorable tax rates in the past one after another requested reductions or waivers in the value added tax one, and this has served to threaten the principle of having a mid-level value added tax rate.

3. Building a social security system is still in the study phase, researching plans and carrying out organizational preparation.

II. The keys to next year's reform

According to the overall picture and current circumstances of China's reforms, we believe that reform in 1995 should focus on the State-owned enterprises, vigorously spurring fiscal system reform and social security system reform. In addition, the taxation system and foreign currency administration also need further perfecting.

(1) Enterprise System Reform

Reform of the State-owned large and medium scale enterprises is fundamental to constructing the socialist market economy, while at the same time it is work that involves many aspects of reform. There are two basic methods to reorganizing existing State-owned large and medium scale enterprises into modern corporations: 1—Reorganize existing enterprises by selling part of their share rights or add shares to increase capital, attracting both domestic and international capital; 2—Reorganize existing State-owned enterprises into legal person system corporations while keeping their existing owner relationships unchanged. But no matter what kind of method is adopted, we must carry it out with support in each relevant aspect, under the supervision of powerful combined leadership organizations.

The number one task in implementing reorganization of a State-owned enterprise corporation is to make a complete study of the benefits and shortcomings of each State-owned corporation's different characteristics in the market economy. Then, according to China's practical situation, select one's own model of asset mix and corporation treatment mix. Then, conduct research into the various specific problems in the process of shifting to the corporate system; for examples, evaluation of existing assets, settlements to the large number of redundant staff, handling of excessive debt burden, separation of the enterprise from institutions which have nothing to do with the principal business of the enterprise, etc., seeking methods of handling in which the benefits outweigh the shortcomings. After drawing up a plan for reform, we should choose cautiously, implementing by groups and at varying times.

(2) Fiscal Reform

The major contents are:

1. Central Bank reform. First of all, we must speed up the "Central Bank Law" legislation, and establish a currency policy committee consisting of representatives of the Central Bank, representatives and specialists from relevant government departments, letting the Central Bank function independently to stabilize currency according to

the currency policy objectives stipulated by the currency policy committee. Meanwhile, we must reform the organizational organs of the People's Bank to suit the needs of shifting functions. We might consider reorganizing the branch organs of the People's Bank by economic areas, establishing 8 to 10 transregional branch banks nationally, and changing the prefectural and city level People's Banks to currency supervisory and monitoring bureaus. The chief function of these branches and bureaus will be to conduct supervision and administration of financial organizations and financial markets.

2. The key to fiscal reform lies in commercialization of the State-owned specialized banks, turning them into enterprises. With reduction of the inflation rate and appropriate interest rate regulation, it will be possible to attain reasonable interest rates (approaching the market average interest rate). On this base, it should be possible to accomplish banks' self operation, mutual competition and self-taking of risks. Each bank's general bank will be totally responsible for its own bank's asset liquidity and debt-paying capability. General banks will set up supervisory and monitoring committees, and these committees will be entrusted by the State Council to conduct supervision and monitoring of each bank's operating principles and the situation regarding the value preservation and growth of State-owned capital. They will carry out an evaluation and record the bank presidents' operational achievements, make suggestions regarding appointments and dismissals, rewards and penalties. After primary completion of the above reform, there will still have to be complete regulation of State commercial banks. Those State-owned commercial banks which are oversized and inefficiently regulated should be broken up into multiple banks. The State-owned commercial banks should also explore the feasibility of pluralizing capital elements and reforming banking organizations into corporations.
3. In addition to the State-owned specialized banks, China currently has other nationalized commercial banks, such as the Transportation Bank, China Trust Industrial Bank and Guangda Bank, and several regional commercial banks, city credit banks, etc. Most of these banks are organized along the lines of the corporate form, and are self-operated under the supervision and monitoring of the Central Bank. In addition, there are a great number of urban and rural credit unions. All of these financial organizational forms should continue to develop in the future. But great development is needed, especially for the rural and urban cooperative banks.

(3) Establish a new social security system

Establishment of a new social security system is a necessity for completely reforming enterprises. The

major missions here are: 1) Starting with the cities, establish a unified national unemployment insurance fund, which will be provisionally collected by taxation departments, then managed and used by labor and employment departments; we might also consider calculating part of the State-owned enterprises' share rights as part of the unemployment insurance fund, and later on use share right profits as part of the capital sources. 2) Reform the current public health care system, establishing health care insurance organizations by trades or areas. Health care insurance fund associations are nongovernmental financial organizations, and in addition to employers undertaking some of the expenses, individuals must also assume a certain share of their medicare expenses in order to prevent the phenomenon of high benefits during the lower income stage. 3) Trial implementation of a pension fund system. Pension funds consist of two parts, the basic pension fund and the supplementary pension fund. The basic pension is issued by the pension fund. In addition to what enterprises and individuals have paid in insurance fees, one source of funds will come from setting aside some of the employees as members and service objects of this fund at the time that the enterprises are incorporated. Completely implement the marketization principle for each subsidized pension letting individuals purchase freely. 4) Establish a national unified poverty welfare system, letting civil departments handle the details. On the base we now have, we must significantly improve poor relief (including unemployment benefits) and set up a system for this. One important prerequisite for this work is getting a handle on the number and distribution of low income households in China and then establishing the form and standards for relief. 5) For the life and property insurance companies which are already established, we should establish multiple units, proposing that they operate independently and compete mutually.

(4) Taxation Reform

Three items need perfecting here: 1) Establishing and perfecting the two taxation collection and administration systems of the Central Government and localities; 2) Defining the role and rights of each level of government; 3) Designing transfer and payment methods and the calculation formulas for these.

(5) Reform of the System for Administering Foreign Currency

We need further research into the followings: 1) How the foreign currency exchange market operates among banks; 2) The system by which export oriented enterprises collect and sell foreign currency. Perfect the system by which they turn over foreign exchange in normal transaction, and seek a way to make the RMB exchangeable.

The Chinese government issued plans for stabilizing the economy in June 1993, and after one year's work, the Chinese economy has tended to stability. In the first half of this year, urban and rural households' saving deposits increased by 38.4 percent, which was 22.1 percent more than the same period last year. Investments in fixed assets has been effectively brought under control: in the first half of last year, investments in State-owned sectors increased 70.5 percent, while in the first half of this year, investments in State-owned sectors increased by 37.5 percent over the first half of last year, a 33 percent drop in the rate of increase. Meanwhile, some enterprises have been efficient at securing short term loans, which has gradually eased the capital shortage in enterprises. The stabilizing trend in finances has led to a falloff in inflationary trends. The national retail sales commodity price index dropped to 0.9 in March, 1994, was 1.3 in April, 0.7 in May and 1.0 in June, down from the monthly rate of 3.4 percent for the period of November 1993 to February 1994 (49 percent for the whole year); this means that China's present inflation has fallen to an annual rate of 10 to 15 percent from about 50 percent at the beginning of the year. If we can maintain control forces at the current total amount and continue improving our control methods, the inflation rate can be expected to fall to 0.8 percent monthly (about 10 percent annually) by the end of the year. This will prepare a better environment for initiating several important reform measures next year. Concurrently, the successful initiation of these reforms will further stabilize macroeconomic conditions. This will then enable the Chinese economy to enter a good circulation cycle. Otherwise, if each item of reform cannot be carried forward according to plan, and administrative controls cannot be lastingly effective, then reversal of our good economic situation is very possible. Needless to say, we should choose the former.

Economists Discuss State Enterprise Reform

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[Article by Guo Cai (6753 2088): "Beijing Scholars Discuss Reform of State-Owned Enterprises at Symposium"; author is affiliated with the State Council's Research Department]

[FBIS Translated Text] In the wake of the comprehensive implementation of several major macro reform measures this year, China will shift the focus of its economic tasks from the macro level to the micro level next year and will take further steps to push forward its reform of state-owned enterprises. This will be the last battle in establishing the socialist market economic system and will also be the critical moment that determines the life or death of the country's socialist undertakings. The issue of how to improve the state enterprises

has attracted much attention from theoreticians and practitioners. For this reason, the State Council's Research Department recently invited some noted economists in the capital to attend a symposium on state enterprise reform. The following are the edited minutes from that meeting.

I. On the Guiding Principles of State Enterprise Reform

According to Tao Dayong [7118 1129 6978], the guiding principle for reforming state enterprises is to always uphold the primary role of the public ownership system. The bases for this are: (i) According to Article 7 of the Constitution, the state-owned economy is the lead force; the state guarantees that it will strengthen and develop the state-owned economy. (ii) *Deng Xiaoping Wenxuan* [Selected Works of Deng Xiaoping], Volume 3, clearly states that there are two main elements essential to socialism: the public ownership system and distribution according to work. Today, some people are secretly advocating privatization, and ultimately they are denying the primary role of the public ownership system. They acknowledge the primary role of the public ownership system in words, but not necessarily in deed. The focus of debates has been on whether property rights are clearly delineated, as if all state enterprises had no clearly defined property rights and must be changed. (iii) It was the decision of the Third Plenary Session of the 13th Party Central Committee to set up a modern enterprise system based primarily on the public ownership system. These three elements are basically unanimous. They all insist on upholding the primary role of the public ownership system. This should be the starting point and the theoretical basis for all reforms, especially the reform of state enterprises.

In Gao Hongye's [7559 7703 2814] opinion, state enterprises must never become privatized. He particularly argues that privatization has nothing to do with the large and medium-sized state enterprises' efficiency. He points out that the first reason given by those who advocate privatization is that people care about their own properties, and privatization increases enterprise efficiency by giving play to people's egoism. Such reasoning may be valid in the small-scale, mom-and-pop stores and rural family-based, output related contract households in China, but facts do not support its application to the operation of large and medium-sized enterprises. (a) Under the private system, the operations of small enterprises inevitably will get bigger and bigger, and as enterprise size continues to expand, there will be more and more shareholders, and equity rights will become increasingly decentralized. Take the United States' AT&T for instance. It has more than 3 million shareholders, and no single shareholder controls more than 1 percent of all equity rights. No shareholder, no matter how enthusiastic, can directly play a meaningful role. Thus, small-scale operators' enthusiasm cannot be applied to the large- and medium-sized enterprises. (b) Enlarged enterprise scale separates management rights from ownership rights. Marx noted this point in Volume

3 of *Das Kapital*. In the 1940's, the West began to revolutionize its enterprise management; managers seized management power from the hands of the shareholders, and management rights and ownership rights were already clearly delineated. By the 1960's, some Western scholars noted that the status of Western managers were no different from that of Soviet managers at that time; they had management rights but no ownership rights, and even if the shareholders were enthusiastic and wanted to manage enterprises, they had no power, nor could they give play to their enthusiasm. Today, there is a popular belief that shareholders of large and medium-sized enterprises can choose the board of directors who in turn appoint managers, and the shareholders' enthusiasm can play a role through the board of directors. This belief is not substantiated by facts in the West. In actuality, after management is revolutionized in the West, managers choose the board of directors with the shareholders' consent. Shareholders cannot supervise enterprise management through the board of directors who just act as rubber stamps. Thus, the economic benefits of large-scale production more than compensate for the losses resulting from the abandonment of the shareholders' enthusiasm. This proves that large and medium-sized enterprises' efficiency has nothing to do with the private ownership system.

Gao Hongye points out that second reason given by those who advocate privatization is that private property rights are clear while public property rights are not. It is not clear why people say that public property rights are ill-defined, because all explanations so far confirm that public property rights are very well defined; state property rights are no more than ownership by the whole people. As far as private property rights are concerned, facts in the West prove that property rights in small-scale operations are very clear, but they are obscure in large operations. The reasons are two-pronged: One, Western financial enterprises are increasingly well-developed. These enterprises fall into four groups: insurance companies, pension funds, bank trust departments, and mutual funds. Currently they account for 80 percent of the shares exchanged in the New York Stock Exchange and 75 percent of the stocks transacted worldwide. These financial institutions in fact are agents; it is the investors who truly own the stocks. The investors do not know which part of their money is invested in the stocks of which company. All they want is good management that yields dividends. Two, Western corporations' organization is very complicated. The entire corporate system's equity rights are tangled up like twisted roots and gnarled branches; they go back and forth and are allowed to hold each other's stocks. Even the companies are not sure what shares they own represent which company's equity rights. Thus, the increasingly complicated Western enterprise organization can only make private property rights more obscure.

In Wu Shuqing's [0702 2885 7230] opinion, reform of state enterprises must blaze a new socialist trail with Chinese characteristics. It must resolve the issue of

whether the public ownership system and the market economy can coexist. If this issue is not resolved, there can only be two results: One is to go the way of privatization or some distorted form of privatization, and the other is to maintain the original, traditional form of socialist ownership system, and the latter will always mean inefficiency. Neither approach plants its foothold on a socialism with Chinese characteristics. How to reform the state enterprises is indeed a crucial question. It involves the question of whether the idea of a socialism with Chinese characteristics is valid. Thus, the general idea is to make the public ownership system coexist with the market economy. Even though this is a difficult path, we must take it. Today, many people are baffled by the problems of state enterprises and want to resolve them in some other ways, and they begin with some theoretical breakthrough points and argue that the "public ownership system" and "ownership by the whole people" are not Marxist. They base their arguments on two points: First, they say when Marx talked about an "individual ownership system," he meant each individual had a share; second, they say when Marx talked about a "common ownership system," he meant common ownership, not public ownership; "common" meant everybody had a small share. Both arguments seriously twist Marx's original idea. When Marx talked about rebuilding the individual ownership system, he derived that logically by negating a negation: Before the negation, the workers had private properties, and after the negation, the workers had no more private properties; everything belonged to the capitalists, and after negating that negation, the workers possessed properties at a higher level, that is, society owned all means of production. Let us say that "common ownership" means everybody has a share. If that share cannot be sold, it will be rendered meaningless, and if it can be sold, it is no longer "commonly owned" but is "privately owned." Therefore, it is not possible to find support for refuting the public ownership system from Marx. Even in practice, private ownership cannot solve the problems of large and medium-sized enterprises, because Although the state enterprises have problems, changing to the private ownership system will not make any difference. Take the question of retired workers for example. What converted, privately run enterprise can solve that problem? Today, we let some state enterprises operate under such arrangements as leasing; state-owned, civilian-run; one-plant-two-systems and so on. None can take over all of enterprises' burdens. Therefore, privatization cannot solve state enterprises' current problems.

The problems plaguing the large and medium-sized state enterprises have been around for a long time. They are historic, social problems which cannot be solved in a single step. When China established the state-owned economy, it did not have a scientific understanding of socialism and believed that everything had to be "large in size and collective in nature." It over-extended the scope of the state economy and exceeded the needs of the productive forces' development at that time. Was it

necessary for the state to shoulder such a heavy burden? That is a question worth studying. But to solve the problems, the state must shed some of its burdens; it must lease or sell off some of the things in the state economy which do not belong there, so that it can lighten its load. After selling some state enterprises, the money it gets back can be used to upgrade other state enterprises that urgently need support and development. In short, at the early stage of socialism, how big a share should the state economy take up? We must have a clear answer in our guiding ideology. Our early guiding ideology was flawed; we over-estimated the objective needs at the early stage when we first set up the state-owned economy.

II. On Setting Up a Modern Enterprise System

1. What is the crux of the modern enterprise system?

Wu Jiajun [0702 0159 7486] believes that privatization cannot solve the problems of state enterprises; instead, we should turn to the modern enterprise system. Today, there is no consensus on what is a modern enterprise system, mainly because we are not clear about the nature of that system. The crux of the modern enterprise system is limited liability, while the old state enterprise system is a system where the state takes unlimited responsibilities. This is the essential difference between the modern enterprise system and the existing state enterprise system. Instead of making the state assume unlimited responsibility for state enterprises, it should only take limited responsibility. Only then can we change the enterprise system. When we talk about property rights, we should begin here, not how to quantify each individual's property right or privatize property rights. Limited liability means clearly delineating enterprises' property liabilities. This is the crux of the modern enterprises system. There are unlimited liability companies abroad, but they do not belong in a modern enterprise system. If we clarify the nature of the modern enterprise system, we will know what we want to do with the pilot project. It is a property rights issue, but this issue must be separated from the issues of individual property rights and privatization. This pilot property rights project is to make enterprises sort out their assets and verify their fund sources, sort out their credit rights and debts, and assess property values, so as to delineate enterprises' properties without changing the property rights; we still have a public ownership system. In short, the pilot project is for resolving the limited liability issue. The modern enterprise system means companies have limited liabilities. Its concrete form is the shareholding companies and limited liability companies, and it also includes the new, wholly state-funded companies, because they too are limited liability companies.

In Lin Gang's [2651 1511] opinion, at the heart of utilizing the modern enterprise system to transform enterprises is the issue of enterprises' property rights as legal persons. Enterprises' legal person property rights mean enterprises can own assets and use their assets to

take care of their civil responsibilities, including economic responsibilities. On the surface, this seems to contradict the system of state-ownership. People who advocate privatization base their idea on this point and insist that improving state enterprises means privatizing them. The truth is, they are mixing up two issues of different levels. The first deals with who has final property rights. The implication is that public rights are indivisible, and only the state has ownership. The indivisibility of public ownership rights also means every citizen is an owner only when he and the other citizens are together as a group, but when he leaves that body and acts in the capacity of an individual worker, he is no longer an owner. ***But enterprise property rights cannot be found in the common ownership system but is found only in enterprises comprised of nonowners. At such time, if enterprises want to exchange products, they must go through the market, and in fact they are still bodies that generate profit. This is true from the individual workers' and from the collective workers' points of view. Therefore, when we talk about enterprise property rights, we are referring to the relationship between different groups of workers acting in the capacity of nonowners, similar to when they interact with one another as separate owners under the private ownership system. This is the basis of enterprise property rights. Thus, while upholding the indivisibility of state ownership rights, we should affirm enterprises' property rights as legal persons at the enterprise economic level and draw up the boundaries of enterprises' interests. This is the crux of the issue, and in fact it is an issue that also belongs in the realm of property rights relations. People who advocate privatization because they believe that modern enterprise system cannot be established under the conditions of state ownership simply fail to see this point.

2. To establish enterprise property rights as legal persons, we must straighten out the state property management system.

According to Lin Gang, the issue of state property management is closely related to the issue of enterprises' property rights as legal persons. When establishing enterprises' legal person property rights, we must deal properly with the relationship between the state as owner and enterprises. On the premise of separating the state's internal property management functions and its administrative functions, we should include both in the regulatory domain of the civilian commercial laws. In this way, we can break away from the confines of the tradition system's administrative jurisdiction and turn the relationship between the owners of capital and enterprises into a bona fide contractual economic relationship and radically solve the problem of commingling of government and enterprises. The general principle is to separate the state property management system into two levels. On one level is the state property management department, which is in charge of formulating the relevant general and specific policies. On the other level is the state property operational organs, which are like the

investment management companies set up by some localities. In this way, we can separate state properties' management functions and operational functions. The investment management companies should submit to the supervision of the state property management department and carry out its general and specific policies, but on the other hand, they should also be independent legal persons, like ordinary enterprises, and operate within the regulatory domain of the civilian commercial laws. It should be emphasized that state property management companies must be wholly state-owned. If they become something of mixed economic components, they will not wholeheartedly represent the state as owner.

III. Issues Concerning the State Enterprises' Management

1. Questions concerning the shareholding system:

Tao Dayong says that today, some people are advocating the shareholding system, as if stocks can fix everything. He says he does not oppose the system, because the shareholding system facilitates fund gathering. But as a basic idea, it will not work. Today, the market is down, and it will be difficult to restore the public's confidence in the stock market any time soon, because a handful of people have made big money, and they are gone. More important is that today, some people advocate complete privatization of enterprises through the shareholding system. Tao is not saying that they are appropriating public properties, but at least some of the state-owned shares have been turned over to individuals. He asks if state enterprises get into the shareholding system, will state shares be listed? If they are, how would the state keep its controlling interest? Who should represent the state in listing its stocks? Should there be legal person shares? There are no answers for these questions. The idea of changing enterprises' operating mechanisms through the shareholding system may warrant reconsideration.

Gao Hongye points out that those who advocate privatization say that stocks can play a supervisory role in enterprise operations, but that has not been substantiated. Common knowledge about Western stock markets says short-term stock market fluctuations are purely the result of the ordinary stockholders' psychological reaction and the investors' speculative behavior and have nothing to do with enterprise management. Long-term market fluctuation does reflect the quality of enterprise management, but such consequence is known only after the fact and cannot be ascertained beforehand. Therefore, long-term fluctuation cannot have any supervisory effect on enterprise management.

Hu Daiguang [7579 0108 0342] worries that the shareholding system may not be able to solve enterprises' mechanical problems and believes that state enterprises have many other problems which the shareholding system cannot resolve. In addition, the shareholding system also involves the question of controlling interests, and we must be careful. Other countries look at controlling interests from both sides. Because the relationship

among shareholding companies is very complicated, we should not think that if the state has controlling interests in several hundred or several thousand large companies, it can preserve the essence of the state economy. That would be too simplistic.

2. The bankruptcy question:

Tao Dayong believes that when it comes to allowing the large and medium-sized state enterprises to go bankrupt, we must be careful. Of course, some enterprises truly cannot go on, and they must be allowed to merge, consolidate, or even go bankrupt. But in general, stability is the overwhelming issue at this point. Trouble has already brewed in some enterprises because they cannot pay wages or pay full wages, and if they go bankrupt now, when the social security system is not in place, it can be dangerous. China's situation is unlike that in the West. Article 42 of China's constitution stipulates that the citizens have the right to work. We cannot let enterprises go bankrupt and leave the workers unemployed. We may withhold the iron rice bowl, but we cannot withhold all rice bowls—jobs.

Wu Shuqing says that bankruptcy should be allowed. It will not do if enterprises simply cannot produce anything or cannot sell what they produce and must live off of the state. There is also a question of changing old concepts here. Socialism simply cannot forever support those who cannot make a living, although decades of eating out of the iron rice bowl in China has taught people to think otherwise. The right to work does not necessarily mean working in state enterprises; individual households also have the right to work. "Bankruptcy" and "right to work" should not be mixed together.

Lin Gang says that it is important to allow enterprises to go bankrupt and link enterprise bankruptcy to the readjustment of the industrial structure and product-mix. Some of China's old enterprises were set up in the 1950's; their products are outdated and have no market, and we should get rid of them. When they go bankrupt, the state may lose some money, but there is a limit to such loss. It simply will not do if we continue to subsidize enterprises' losses and let banks give them loans to pay wages.

3. The question of workers as their own masters:

Tao Dayong says that today, China's working class has little work incentive; newspapers and the media should not keep on preaching that labor is a commodity. An article in RENMIN RIBAO dated 29 July talked about labor as commodity. But the workers are their own masters, and how do we explain the masters selling their own labor? But the RENMIN RIBAO article served as a sign, a theoretical precedence, that we should go from the labor market to labor as a commodity. Today, we should emphasize the workers' status as masters. We should not just look at the entrepreneurs. We must also find a way to mobilize the masses of workers' enthusiasm. At least, the media should help boost the status of the workers.

Gao Hongye says that the workers' role as masters is one of the marks of superiority of socialist enterprises and should be applauded. People who advocate private ownership often focus their attention on the management level, but in fact, the workers' enthusiasm is an even more important issue. Even the capitalist countries know about this and are looking for ways to emulate us. They want the workers to buy stocks and share the dividends. This is no more than trying to emulate the socialist countries where workers are the masters. We on the other hand are overlooking our own superior factor, and if we are not careful, we may miss out on the merits of both social systems. We should talk loudly and righteously about this superiority of the socialist system. This is also an important factor for improving efficiency in state enterprises.

IV. Ideas For Solving the State Enterprises' Problems

1. The state should adjust the macro policies to create an accommodating, competitive environment for enterprises.

Gao Hongye says that both Marxist economics and Western economics acknowledge that competition is the key to enterprise efficiency. Therefore, China's macro policies should be readjusted; the rate of economic growth and other indexes should not be set too high. We should limit society's demands to what its resources can supply and create a general environment that facilitates enterprise competition and improve their efficiency through competition.

2. We should adopt emergency measures to solve some of the large and medium-sized state enterprises' special problems.

Tao Dayong has three suggestions: (i) Provide support in the form of loans, such as opening a bank that specializes in providing developmental and technological transformation loans to large and medium-sized state enterprises. (ii) Ease enterprises' tax burdens: After the introduction of the new tax system, the large and medium-sized state enterprises' tax burden has been eased somewhat, but compared to enterprises of other economic components, they are still heavy. Reportedly, Japan implements the same tax policy toward all foreign and domestic enterprises. We at least should make the tax burdens more fair. Therefore, the large and medium-sized state enterprises' tax burdens should be reduced even more, and the depreciation rate should be raised some more. (iii) Accelerate the pace of society-wide reform of pension fund and work diligently to lighten the load on the large and medium-sized state enterprises created by the large number of retired personnel.

Wu Shuqing also believes that the most urgent task now is to rid the state enterprises of some of their burdens, but it is not likely that taxes will be lowered, because the state cannot afford to lower taxes. Today, the most important thing is to accelerate the reform of the social security system and the housing system. So long as the

government pays sufficient attention, it will not be too difficult to solve those problems; in fact, they can be done immediately.

3. We should take care of the state's and the state enterprises' interests at the same time.

Wu Shuqing says that the state enterprises have too little funds of their own; they are dependent mainly on loans, and their interest burden is heavy. In particular, since the replacement of state appropriations by loans, the only source of enterprises' circulation funds have come from bank loans. There is a theoretical puzzle here: The state owns those enterprises but is not providing them with money, they must borrow money to do business and repay the principal and interest, and if they do not upgrade their technologies, they will go out of business sooner or later, and if they do upgrade, they will go out of business even sooner. Theoretically speaking, the outlay came from the state at the beginning, but everything belongs to the state henceforth. Enterprises definitely will not find that acceptable. This poses a question: Are state properties prioritized? There should be a way to take care of the state's and state enterprises' interests at the same time, and there should also be a way to ease some of enterprises' interest burdens. As for enterprise debts, they should be classified and dealt with accordingly.

Gao Hongye says that laws must be drawn up to delineate the rights and obligations between enterprises and the state to avoid unnecessary state interference in enterprise business.

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[Article by Liang Hua (2733 5478), with discussion participation by Wang Jian (3769 0256), Zhang Liquan (1728 4539 5028), Liang Hua, Yang Dakan (2799 1129 0170), and Fan Caiyao (2868 1752 5069), all affiliated with the State Planning Commission's Economics Studies Institute: "An Exploration of China's 1994 Economic Development Trends"]

[FBIS Translated Text] China's 1994 macroeconomic regulation and control policy is focused on curbing inflation. All macroeconomic indicators show that our national economic operations for the first half of 1994 were within the limits of expected value. Our price trend reached a turning point, with our retail price comparative index falling monthly since March to reach 18.9 percent for May, down 1.7 points from February; our capital goods price rises fell sharply every month, with our commodity sales price index for the first five months at only 3.7 percent, including -2.6 percent for May. Meanwhile, our industrial output maintained a quite high growth rate, with our national GVIO growth for the first six months at 18.8 percent, including growth for

light industry of 20.1 percent, and for heavy industry of 17.6 percent. Our exports grew faster than our imports, with our foreign exchange reserves increasing faster; our bank deposits were up sharply, with currency withdrawn from circulation better than in previous years. But our microeconomic operations were subject to more problems, mainly more enterprise operating difficulties, declining efficiency, severely overstocked inventories, and the severe impact of market cooling and capital restraint. What does this operating state of "macroeconomic expectation" with "microeconomic concern" show? What are its evolving prospects? How should we adjust our macroeconomic policy?

We hold that a correct response to this series of crucial questions will mean proceeding from the basic point of the change that has occurred in our economic growth form in the 1990s.

I. Understanding Our Current Economic Situation and Macroeconomic Regulation and Control Policy Results from the Perspective of Our Changed Economic-Growth Form

Since the last half of 1993, our overall macroeconomic policy has vacillated between the regulation and control corridors of maintaining economic growth and curbing inflation. In the fourth quarter of 1993, the stimulation of nearly 300 billion yuan in loans brought high economic growth and a price rebound, forcing a stronger macroeconomic regulation and control dynamic, with bank loans growing only 5.3 billion yuan for the first two months of 1994, or 14.2 billion yuan less than for the first two months of 1993. Our industrial production growth rate has begun to decline. Credit was eased in March, with about 10 billion yuan more in loans each month than the preceding month (most of which were short-term loans), and one-fourth of our annual credit plan fulfilled by the end of May, bringing lending to a normal level. But after our industrial output saw light industry taking the lead to grow fast in April and May, it then clearly declined in June, when our GVIO [Gross Value of Industrial Output] growth was 18.2 percent, down 2.33 points from May (under normal circumstances, this figure for June should have been two to three points higher than for May). So why did our June industrial growth decline abnormally? We hold that the major cause was the demand-pull on our economic growth in the first half of 1994 which, due to structural problems having been clearly controlled, and to macroeconomic regulation and control and its impact on economic growth, was sharply changed in contrast to 1993.

Consumer demand remaining stable, while investment demand growth declined, was the basic cause of our economic growth decline. The following table shows that in contrast to the same period in 1993, except for consumer demand growth not changing much, our investment (state-owned) growth rate declined by more than one-half. Meanwhile, soft domestic demand (with a

consumer demand real growth rate of 4 to 6 percent) forced enterprises to shift and seek overseas demand, with exports up sharply, growing faster each month in the first half. But as export demand stood in a small ratio to overall demand, it had a relatively smaller impact on our economic growth.

Table Comparing China's Demand Growth Structure for the First Halves of 1993 and 1994

Comparative Growth Rate	January Through May 1994	January Through May 1993
Exports	21.4%	8.2%
Consumption	25.2%	22.7%
Investment	34.2%	69.3%

Another factor propping up our industrial output growth rate for the first half of 1994 was the reexpansion of intermediate demand stimulated by short-term bank lending. The easing of credit that began in March 1994 was seen mainly in a monthly increase in short-term lending. But while this stimulated current industrial output, increasing supply, the limitations of final demand meant that increased working capital loans resulted merely in increased product-inventory overstocking. Our manufactured goods production-sales rate for the first five months was 92.38 percent, down 1.75 points from the same period in 1993, while our budgeted industrial enterprises had 14.4 percent more money tied up in finished products in May 1994 than in May 1993, and 12.1 percent more than at the beginning of 1994. As enterprises responded steadily more sensitively to market information, lowering output in line with product overstocking, this inevitably touched off a slower rate of industrial output growth. As our major demand change was in investment, heavy industrial output was more restrained by demand, which was the major cause of our sustained slower growth of heavy than light industry in recent months.

It gives much food for thought that the easing of credit by banks in March 1994 did not effectively stimulate final demand, as well as having pulled economic growth. We hold that this had two causes: 1. As bank lending was restricted in orientation, it stimulated supply, not final demand. The monthly increases in mid- and long-term lending that stimulate investment demand have stayed at about the March level since March, not increasing much. 2. As our whole society's capital operation structure has changed since the last half of 1993, with market financing activities sharply restricted, and self-financing channels for producers and investors cut back sharply, the impact of monetary policy is expressed more directly through regulation and control of bank lending, not indirectly through money markets. This investment structure has directly affected our demand structure, which is the major reason why our 1994 macroeconomic regulation and control results differ so widely from previous years.

This analysis shows that China's economic growth and macroeconomic policy results have both undergone a crucial change, which change we need to thoroughly understand to correctly grasp our current state of macroeconomic operations.

This crucial change in China's economic growth has been one from our economic growth of the 1980s, which was driven by high growth of both consumption and investment, to a period of heavy industrialization in the 1990s, with individual consumption in a stage of "low consumption with high savings," requiring a high investment rate to drive economic growth. Beginning in the 1990s, this change in production-demand relations has been accompanied by a rapid increase in overall national savings that sustain economic growth, with overall supply and demand relations changing sharply along with changes in our supply and demand structure. This setting has determined our high economic growth of the 1990s, while the determining factors in overall change have undergone a crucial change, with investment demand having become the major factor determining overall change. In this case, we can no longer indiscriminately apply our past experience in evaluating our investment scale. In fact, as our gross demand has exceeded our gross supply by a rate (based on State Statistics Bureau estimates) of 3.5 percent in 1990, 4.0 percent in 1991, and 6.6 percent in 1992, roughly within the rational limits of around 5 percent, our investment growth has certainly not passed the rational limits.

As for the first half of 1994, our investment growth fallback severely restricted our overall final demand growth, as well as having the impact of helping our economy reach a rational growth level. In the first half of 1994, our magnitude of value and material were both in a state of overall supply exceeding overall demand. The State Statistics Bureau estimates that our supply-demand differential was supply exceeding demand by 8.5 percent, or 10.9 percent when excluding the impact of our import-export shortfall.

As our new economic growth form means that we need to adopt a new form of balancing overall supply with overall demand, we need to come to a new understanding of the new rational limits in the relations between economic growth and investment growth.

II. The Relations Between Stimulating Investment Demand and Curbing Inflation

Curbing inflation has become the primary aim of our overall macroeconomic policy in 1994, as well as the greatest limiting factor containing our regulation and control orientation and dynamics and easing of demand. So will easing investment restraints again cause inflation to rebound again? In other words, what are the relations between stimulating investment and inflation? This will require a detailed analysis of the causes and effects of our current inflation and antiinflationary remedies.

We hold that our current round of inflation differs from inflation in the traditional sense. So our current antiinflationary emphasis on controlling our money supply

and investment scale is incorrect. Under our new form of economic growth, the current inflationary developments have new features. The major causes of the current inflationary developments are not demand pull and currency expansion, but rather structural price adjustments and market influences. 1. The impact of the government initiative to adjust [raise] prices. Our larger price increases in 1993 were concentrated mainly in food and service prices, which was related to our deregulation of grain, edible oil, and service prices in 1993. Of our national retail price rises in 1993, price adjustments accounted for three-fourths, while spontaneous rises made up only 3-4 percent. While we took a series of steps in the first half of 1994 to adjust the prices of basic products, such as grain and edible oil, oil, rail freight, power, and coal, which had a crucial impact on price rises, the gradual dissolution of the tails factor will gradually decrease the impact of such structural price rises on inflation. 2. The direct relation between the clearly higher price rises since the fourth quarter of 1993 and the grain price turbulence at the end of 1993. This abnormal grain price turbulence touched off a chain reaction of price rises for related commodities, such as meat, poultry, eggs, and produce. Analysis by a concerned figure at the Ministry of Agriculture finds that this sudden grain price turbulence, in addition to more (husked) rice being sold than produced in some southern zones, was due mainly to abnormal causes, such as our grain sales market reform not having achieved its desired results, and our not having exercised timely and effective market management over deregulated-price commodities. As we have taken steps to repair our market order, such price-rise factors have been effectively curbed. In 1994, due to factors, such as price adjustment and policy support for agriculture, our fall acreage planted to grain and cotton will be up from 1993, with our staple farm-product output expected to be up further on the heels of 1993's bumper harvest, and grain prices in a downward trend, so that it is projected that rural market prices are likely to be lower than state purchasing prices.

The ultimate aim of curbing inflation is to preserve social and economic stability. The current inflation, as the government initiative to raise prices accounted for a large percentage, with the change of covert to overt subsidies touching off structural price rises, will do limited damage to individual living standards. The impact of the current inflation on individual mindset and social stability differs sharply from the past. When our inflation rate recently topped 20 percent, it did not touch off individual consumer panic, with retail markets stable but soft instead, and individual savings and purchases of treasury bonds climbing steadily. This also reflects from another perspective the new features of inflation under our new economic growth form. But curbing inflation has certainly cost us in areas, such as increased unemployment and larger enterprise losses. We hold that as problems in these areas are precisely

what is currently impacting our social stability, we need to cautiously decide how to go about adhering to these antiinflationary steps.

We hold that by the first half of 1994, the mission of our short-term overall macroeconomic policy of curbing inflation had been basically completed. The future direct causes of price rises will be whether our price adjustments are correct, whether our market management of prices is effective, and whether our farm product supplies are ensured. As to the deeper structural and cost-push factors that spur inflation, our antiinflationary steps must be linked to long-range development policy and reform progress. Particularly as our nonstate industrial enterprise output makes up more than one-half, with our overall macroeconomic regulation and control base and targets sharply changed from the 1980s, our macroeconomic regulation and control limits should be our whole society, not state enterprises alone. As our form of converting savings to investment grows ever more complex, we need to correctly deal with the relations among our economy becoming more monetary-, property-, and finance-oriented, speeding up the sound growth of capital markets and the marketization of our financing form, so that our macrofinancial regulation and control eventually becomes grounded in money markets.

III. Our 1994 Economic Operating Trends and Remedies

Of the dynamic changes in our economic operations for the first half of 1994, there are two that are likely to have a crucial impact on our economic trends in the second half: 1. The turnaround in our retail price index in March; 2. The turnaround in our industrial output rate in June. These two turnarounds are trends that will continue.

1. We Need to Carefully Prevent the Potential "Avalanche Effect" in Our Economic Operations

Our changed relations between economic growth and inflation in 1993 and 1994 are similar to those in 1988 and 1989. While the last round of inflation developed seriously in 1988, it peaked at 27.9 percent only by February 1989, after which it fell at a rate of 1-4 points a month, while our industrial output rate dropped even faster. By the time our retail price index had dropped to 11.4 percent in September 1989, our industrial growth rate was only 0.9 percent, nearly stagnant. By the time our retail price rises had dropped to single digits in January 1990, our industrial growth had slid to -6.1 percent, for the first negative growth since reform. Then we were forced to put a large amount of currency into circulation to stimulate our economy, for which we paid an extremely high price. In 1993 and the first half of 1994, we also experienced this process of inflation growing to a peak of 20.6 percent by February 1994, after which it fell 0.6-0.7 points a month. The clear decline in our industrial rate showed up in June, when it fell over

five points more than the normal rate. While our current change in the relationship between industrial growth rate and prices is not as evident in degree as in 1989, the trend is quite similar. It is also similar in the demand-structure setting of our economic growth, with consumer demand soft, while investment demand is curbed. So how to seize the opportunity to effectively stimulate our economy is a important issue that needs great attention.

2. We Need To Promptly Adjust Our Credit Structure To Stimulate Investment Demand

If our financial reform cannot quickly evolve a marketized form of financing in the short term, then premised on macroeconomic control of overall credit, we should adjust our current credit structure, changing some short-term loans to mid- and long-term loans, to further increase the percentage of fixed assets investment loans.

We hold that while our current inflation remains too high overall (particularly when measured by comparative indexes), our macroeconomic regulation and control needs to be leading and farsighted, with the crux being whether prices are rising or falling, and whether link-relative prices are high or low. Our retail price link-relative index for March through June 1994 was respectively 0.5 percent, 1.3 percent, 0.7 percent, and about 1 percent, all low. On the other hand, as the economic growth "avalanche effect" had already showed up in June, preventing an economic growth slide should become our primary remedy to preserve stability. Meanwhile, as the lag effect of 1994 price adjustments has not yet dissolved, with the impact of price reform for upstream products in May particularly to be conducted to final consumer goods in the last half, in addition to it still not being known what changes the new monetary operating forces since financial reform will bring to the currency multiplier effect and currency circulation rate, we still need to adhere to a policy of appropriate control of our overall finance.

3. A Forecast of Our 1994 Economic Operating Trends and Indexes

As to our first-half economic growth scale and latent growth energy, it is basically inevitable that our 1994 GNP will top the planned growth target of 8 to 9 percent, so that 1994 will remain a year of quite high growth. We predict that our GNP will reach 10 to 11 percent. As our retail price index for the first half reached 19.8 percent, even if our prices see zero growth in the last half, our 1994 price rises will top the planned target of keeping them below 10 percent. If our last-half retail price index maintains a monthly link-relative growth rate of less than 1 percent, then our 1994 retail price index will reach about 17 percent, with our GVIO growth rate at around 20 percent.

Future Course of National Economy Viewed

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[Article by Zhang Junkuo (1728 6511 2368), Development Research Center, State Council: "Analysis of Where the Present Economic Situation Is Headed and Actions To Be Taken"]

[FBIS Translated Text] The national economy continued rapid growth in 1994, all conventional indicators tending toward the direction that macroeconomic regulation and control requires. The main trends in the operation of economy are healthy. Conspicuous problems in economic life today are two: One is that prices remain too high; holding down inflation remains a daunting task. The second is that the problem of relatively insufficient demand has gradually come to light. This should be given serious attention. Correct analysis of the reasons for and trend of development of these two problems to understand the roots of difficulties in macroeconomic operation is obviously extremely important for proper control of the direction, the intensity, and the timing of future macroeconomic regulation and control in order to maintain sustained and healthy development of the economy.

1. Reasons for and Trends in Price Rises

During the first half of the year consumer prices were 21 percent higher than during the same period in 1993, and commodity retail prices rose 19.8 percent. Although the rising trend has turned downward since March; nevertheless, prices remain too high.

The keys in analyzing the current situation lie in correctly understanding the reasons for the rise in prices, and making a correct judgment about future price trends. The foremost reason for this round of price rises is the rapid inflation of investment demand since the last half of 1992. Industry continued to grow rapidly in 1994, the effective increase in investment remaining high. Consequently, there is no doubt that, to a certain extent, the current rise in prices is pulled by demand. Nevertheless, on the basis of an analysis of all aspects of economic operation, we conclude that the most important reason for the tremendous rise in prices during 1994 is not the pull of demand but the combined effect of the drive of costs, the upward readjustment of prices, and other factors.

The factors driving costs are primarily the following: (1) the swift increase in investment in fixed assets during the past two years has pulled prices of the means of production to a new high. (2) The merger of foreign exchange rates also increased the costs of imported raw and processed materials. (3) Wages have risen very fast during the past year or more, in addition to which reform of the financial control system has resulted in the shift to the costs column of some wage expenses that were

formerly posted as profits, wage cost expenditures increasing greatly in consequence. (4) As the commercialization of housing advances, prices and rents for industrial and commercial real estate have skyrocketed, and have become a production and operating cost. The above factors have not only increased production costs, thereby boosting ex-factory prices, but they have increased commodity circulation costs as well. The result has been a widening of the gap between retail costs and production costs.

Price readjustments and price decontrol, particularly the readjustment of prices of commodities that have an extremely great effect, such as prices for services, grain, and crude oil, have brought the former latent inflation out into the open. In addition, the process of adjusting price parities, which only rise but never fall, inevitably results in a rising trend in the overall level of prices.

Simultaneous with the removal of price restrictions has been a relaxation of price controls. Chaos in pricing, unjustified price hikes, and bandwagon price increases are rampant.

Another explanation of the 1994 price rises is the relatively low (8.4 percent) rise in prices at the beginning of 1993 followed by a fairly high (17.6 percent) price rise at the end of the year. The after-effect is doubtlessly extremely important.

One view maintains that after all is said and done, the tremendous rise in prices is a currency matter. Price rises result from the money supply increasing faster than economic growth. It is certainly true that in the absence of support from an increase in the money supply, the overall price level cannot rise tremendously no matter what. However, increase in various money supply indicators for the first half of 1994 shows that as of the end of May M0, M1, and M2 increased 20.7, 15.2, and 25.66 percent respectively. This was a 31.8, 24.2, and 2.8 percentage point downturn in the rate of increase from the same period in 1993. Although the current year rate of increase is lower than last year, inasmuch as M0 and M1 grew abnormally during the same period in 1993, one cannot call the 1994 increase in the money supply low. Particularly in terms of money in the broad sense, i.e., M2, the 2.8 percentage point downturn in the rate of increase since last year alone shows that the downturn in M0 and M1 remains, to a very large extent, a structural readjustment in the amount of currency available. Thus, overall, no great decline has occurred in the rate of increase.

In analyzing the character of inflation, the key question is how to understand correctly the root causes for money supply growth outstripping economic growth. It must be said that since the promulgation in June 1993 of the 16 measures to enhance and perfect macroeconomic regulation and control, macroeconomic policy—particularly credit financing policy—has aimed at a general tightening. However, accompanying implementation of these regulation and control measures has been an ever more

prominent problem of enterprises falling behind in paying each other. The number of concerns that have had to halt work or halt production because of tight money has not only had an adverse effect on the normal increase in production, but has also hurt, to a certain extent, maintenance of a tranquil and unified political situation. The condition of enterprises or pressures from them finally caused a readjustment of the intensity of control only during the fourth quarter of 1993 and the second quarter of 1994. This produced a moderate increase in enterprises' money supply. Clearly, excessive increase in the money supply is not the result of a conscious expansion of monetary or fiscal policy, but rather it is driven by enterprises (notably state-owned enterprises). This is a classic process of costs driving increase in the money supply and a rise in prices.

Analysis of various factors shows that pressures driving price rises will weaken during the second half of the year. The salient points are as follows: (1) Cost-driven pressures on price rises will decrease during the second half of the year. The "after-effect" will gradually disappear. (2) As the government puts in place various measures to stem price rises, the unjustified price hikes, and the bandwagon price rises of the first half of the year will diminish. (3) As the price rise momentum begins to be controlled, and a downturn occurs in the rate at which prices rise, people's expectations of continuing inflation will also decrease gradually. The main unfavorable factor was the newly inaugurated grain price upward readjustment in June, which introduced a new price rise factor into the second half of the year increase. Overall, the factors favoring a downturn in prices are dominant. Therefore, it is anticipated that during the second half of the year the rate of increase in prices will maintain the month-by-month downturn trend.

2. Evidences of Insufficient Market Demand Have Begun to Appear That Should Be Closely Watched

While noting that the rate of price increase continues fairly high and that holding down inflation remains a daunting task, one must also realize that evidence of relatively insufficient market demand has begun to appear in various fields.

First of all, capital goods procurement and sales in means of the production markets have declined, high inventories are a serious problem, and prices of means of production have suddenly taken a downturn. Between January and May, county level and above materials circulation concerns' procurement volume nationwide fell 18 percent from the same period in 1993, and their sales volume fell 17 percent. Inventories at the end of May were also 30 percent higher than during the same period in 1993. Because of lagging sales and seriously high inventories, prices of capital goods have tended toward rapid downturn. Comparison with the same period in 1993 shows a 15.8 percent rise in prices of the means of production during January, a 10.3 percent rise in February, a 5.2 percent rise in March, virtually no

change in April, and a change from rise to fall during May, prices falling 2.6 percent.

Second, the means of livelihood market shows a 20.8 percent rise in light industrial production during the first half of the year. Although consumer goods retail sales increased 25.6 percent, after deducting for price increases, effective sales volume increased by only approximately 4.5 percent. This was 7.1 percentage points lower than the average increase for all of 1993, and 6.4 and 9.3 percentage points lower than the average increase for 1991 and 1992 respectively. This shows that the effective increase in consumer demand lags greatly behind the increase in production. It must be noted that the consumption structure (demand structure) in China is currently in a period of flux. The task faced in readjusting the industrial structure and the product structure (the supply structure) is very serious. Given these circumstances, the relatively flat consumer demand increase and the relatively rapid increase in savings are not only understandable and inevitable, but they also set the stage for readjustment of the economic structure. The key to the problem lies in what effective policy actions we should take to make good use of the source of funds that savings accounts provide to accelerate the intensity of investment in the production of goods in short supply and promote readjustment of the industrial structure, thereby laying the material foundation for a change in the demand structure, and increasing aggregate demand.

Finally, the decline in the industrial production and marketing rate, and the increase in the amount of money tied up in finished goods have had an adverse effect on the normal increase in production of some investment type goods. Industrial output value during the first half of 1994 increased more than 18 percent over the same period in 1993, but the production and marketing rate fell 1.8 percentage points from the same period in 1993. This included a 2.1 percentage point drop during June over the same period in 1993. Statistics from 380,000 independently accounting industrial enterprises at the township level and above show that as of the end of May, a net 450 billion yuan more was tied up in manufactured goods than at the end of February. This is equal to 87 percent of new industrial loans for the same period. Because of the seriously high inventories, increase in the output of major investment type means of production and mechanical and electrical equipment has either slowed or declined. Comparison of the first half of the year with the same period in 1993 shows a slowing of growth in plate glass, power generating equipment, motor vehicles, tractors, and internal combustion engines, and outputs of alternating current motors, industrial boilers, metal cutting machine tools, internal combustion engines, and computers have declined in varying degrees. Development of means of production industries, particularly investment type mechanical and electrical equipment industries, is extremely important in maintaining reserve strength for future economic growth. Historical experience in China's economic

development attests that whenever excessive finished product inventories occur and production slides, large infusions of capital are needed to restart the economy. This can easily cause economic instability. Therefore, the sluggish procurement and sales of investment type mechanical and electrical equipment, and the decline in their production should be given serious attention and actions taken to provide proper protection.

3. Brief Analysis of the Macroeconomic Boom Cycle Process and Operating Problems

China's present economic boom process began in 1991. The year 1988 was the peak year for the previous boom cycle, and 1990 was the trough year. GNP fell from 11.3 percent in 1988 to 4.4 percent in 1989, and fell further to 4.1 percent in 1990. In 1988, the increase in prices reached an 18.5 percent high, declining slightly to 17.8 percent in 1989, and falling tremendously in 1990 to 2.1 percent. Because of the draconian measures taken in the process of improving the economic environment and rectifying the economic order, a serious market slump and economic recession ensued.

The fact is that despite the steady adoption of policies for so-called switching on markets beginning in 1990, because these policies did not go far enough, neither the markets nor the economy switched on. It was not until 1991 that a marked revival trend appeared. In that year, GNP increased 7.7 percent, and prices rose only 2.9 percent. Following Comrade Deng Xiaoping's remarks during his travels in south China in early 1992, a market change occurred in both people's expectations, and local government and enterprise investment. The economic upturn accelerated. In that year, the economic growth rate reached 13.2 percent, and prices rose only 5.4 percent. The high speed growth momentum continued in 1993, GNP growth rising another 13.4 percent and prices rising 13 percent.

The present upturn in China's economy has lasted three years. According to the rule that a short cycle in the Chinese economy lasts about five years, 1993 should be the peak year for the current boom cycle. Beginning in 1994, economic growth will enter a downturn and readjustment period. Against this background, the slight downturn in 1994 is normal; it is in keeping with the economic rule.

One might say on the basis of a look back at 1993 and the changes in macroeconomic policy during the past 2 years that beginning in 1991, and right up until the first half of 1993, despite announcements about loosening and tightening, the main theme was loosening. It was a course correction to meet the rapid expansion of the economy. The loosening policy was conspicuously expressed during the first half of 1993 in rapid expansion of the money supply.

Most previous economic expansions have been manifested in either a deficit or an expansion of credit, but the 1993 expansion was somewhat unique. During the first

half of 1993, although credit did not expand greatly as in previous economic expansions, the scale of credit throughout society inflated enormously through nonfinance and banking institution transfers such as raising of money in society, and short-term bank lending. As of the end of 1993, MO had increased 54.1 percent over the same period in 1992.

Stimulated by loose macroeconomic policy, particularly monetary policy, the economic boom accelerated steadily. Between May and June, a marked overheating was evident: the rate of increase in investment in fixed assets rose steadily, investment in social fixed assets during the first half of the year increasing 60.1 percent over the same period during the previous year. State-owned unit investment grew 70.7 percent. Prices of the means of production shot up. Industrial production and GDP increased at ultra-high speed reaching an all-time high. In June, industrial gross output value was 30.2 percent higher than for the same period in 1992, and GDP for the first half year reached 14.2 percent. Disarray in the financial order, and real estate and stock market speculation went wild, and the bubble economy was in full flower, etc. Some places experienced market fluctuations and bank payment difficulties. Faced with this situation, at the end of June and the beginning of July the CPC Central Committee and the State Council promulgated 16 measures to enhance and perfect macroeconomic regulation and control. In retrospect, this was not only necessary but timely as well. Without it, maintenance of economic and social stability would have been very difficult.

However, as macroeconomic indicators gradually changed for the better, enterprises' difficulties became greater and greater. Triangular debt, which had moderated for a time, became a conspicuous problem once again. Enterprises' difficulties forced the government to loosen the money supply somewhat during the fourth quarter by greatly increasing central bank relending in a readjustment of the intensity of regulation and control. With the loosening of the money supply, enterprises' tight money difficulties eased, and the declining trend in the rate of increase in industrial production changed. By December 1993, the rate of increase in industrial production revived to 29.8 percent, which was close to the all-time high 30.2 percent of June. During the first and second quarters of 1994, macroeconomic policy once again reverted to the tightening-loosening process.

By observing the operation of the economy and the real economic policy process, one can easily see that both adoption of macroeconomic regulation and control measures when the economy is growing at high speed, and loosening of the money supply before an economic "soft landing" has been completed are forced by circumstances. These changes are less policy readjustments necessitated by changes in macroeconomic policy than macroeconomic policy changes in response to major difficulties in operation of the economy.

Why is it that some enterprises, particularly some state-owned enterprises, face such difficult circumstances that the government has no choice but to loosen the money supply once again even before the economy has completely cooled and a "soft landing" has not been completed? Put another way, why is it that no sooner have these state-owned enterprises difficulties eased than the entire economy overheats, and inflationary pressures become pronounced?

After more than a decade of reform and development, marked differences in increased vitality exist today among all sectors of the economy. Because it has the advantage of more flexible policy measures, economic growth vitality is relatively strong, and development is very fast in the nongovernment owned economic sector. In the government-owned sector, however, because of no fundamental change in the operating mechanism, burdens are very heavy, ability to respond to market competition is relatively poor, and moving ahead with development is very difficult. When the economy is expanding, government funds are applied mostly through increased loans to state-owned enterprises, and increases in the key construction projects of state-owned units; moreover, because nongovernment owned enterprises are highly adaptable, such expansion provides them a large amount of market demand, thereby promoting their rapid expansion. However, adaptability of the government-owned enterprises is poor, so although their difficulties may ease at the time of expansion, or enterprises may grow, their growth is extremely limited. Large number of benefits from economic expansion are gained by the vigorous nongovernment enterprises. Because they make money during economic expansion and have savings, when control is instituted and the economy cools, their adaptability is strong. For the government-owned enterprises, however, even before cooling is complete, they cannot carry on.

Superficially, the difficulties of some state-owned concerns stem from insufficient money and poor cycling of their money. Actually, more profound, hidden economic and social causes exist that make it difficult for them to take part in market survival of the fittest competition. Surplus personnel and excessive burdens are a general rule in state-owned enterprises. In other words, state-owned concerns carry unemployment relief and social welfare expenditure burdens that are properly the responsibility of society. When a state-owned enterprise closes, where can the employed staff and workers go? Who will provide welfare to the staff and workers? When employment for them cannot be found and social welfare cannot be assured, these problems turn into social problems. One must realize that after introduction of a market mechanism, the conflict between inflation and employment pressures will be a main contradiction throughout in the economic growth process.

4. A Two Point Analysis of the Direction of Macroeconomic Regulation and Control Policies During the Next Stage

Curbing inflation and preventing market slumps are two main tasks in economic work today. Disregard for, or

partiality toward either one will be detrimental to maintenance of future sustained, stable economic growth. Macroeconomic regulation and control policy must take all factors into account; it must pay attention to the easing of glaring contradictions in the operation of the economy.

1. We must unremittably make containment of inflation a major component of macroeconomic regulation and control. Both theoretical analysis of the economy and practical experience with economic development show that during a period of rapid changes in the system and high speed economic development, a certain amount of inflation is virtually unavoidable. However, if prices rise too much, not only may economic development and the environment for economic reform suffer, but maintenance of social tranquility and unity may also sustain damage. Despite the present downturn, prices still remain too high, and the basis for the downturn is not very solid. In addition, grain price reform adds a new reason for price rises during the second half of the year. Therefore, the guiding thought for future economic work must remain control of large price increases. Prevention of further worsening of inflation must be a major policy. Although sole reliance may not be placed on policies for controlling demand to cure other than demand-pulled price rises, neither can control of demand be loosened. Otherwise a vicious cycle may easily ensue. The correct method can only be to use reform and policies to hasten structural economic readjustments and the transformation of enterprises operating mechanisms, persevering meanwhile in properly controlling aggregate demand in order to improve enterprises operating efficiency and overall efficiency in the allocation of resources in the national economy.

2. Prevention of market slumps must also be given greater importance on the future macroeconomic regulation and control agenda. Although prices today are still too high, the future development trend suggests a gradual weakening. So long as we do not excessively loosen macroeconomic control, bringing down prices to the single digit level in 1995 will not be too difficult. However, market problems are different. Although it has just begun to appear and is still not very serious, China is now in a downturn period in the economic cycle. As various regulation and control actions continue to be taken, forecasts call for the insufficient demand of 1994 to become worse.

During a situation in which the task of curing inflation remains a daunting task, and overall control cannot be relaxed, easing insufficient demand requires diligent regulation and fine tuning, attention given to eliminating glaring conflicts in economic life. (1) While persevering in strict control of the scale of investment in capital construction, control over investment in enterprise equipment should be somewhat loosened. (2) Enterprise making projects that have good prospects or that sell well

should receive bank support in the provision of working capital. (3) Enterprises that accumulate large amounts of finished products in inventory because their operating mechanisms are irrational, or that cannot adjust to market changes should be forced to change their operating mechanisms and switch to the production of saleable goods by limiting their production of overstocked commodities and other legal administrative and economic means. Living subsidy funds for the staff and workers of such concerns must be provided by the government insofar as possible. Bank funds must be used as little as possible. Otherwise, future banking system reforms may be impeded. (4) Both money and policies should continue to be used to encourage exports. The large increase in exports during the first half of 1994 eased to a very large extent the effects of insufficient domestic demand. Analysis shows however, that because of a gradual decline during the second half of the year in the export stimulus that renminbi devaluation provided, macroeconomic policy measures must be taken to stimulate exports, and to prevent a slowing of export growth, and additional domestic market demand insufficiency.

3. While persevering in overall control, efforts must be made to improve the economic structure. Special attention must be paid during the present stage to overall coordination of the conflicts by the overly large differences in economic development between one region and another, between different economic sectors, and between cities and the countryside. It is because of these conflicts that room for maneuver in macroeconomic policy is extremely limited today.

4. Intensification of reform to solve deep down conflicts. In terms of the correct handling of the correlation among development, reform, and stability, across-the-board promotion of reform during 1994 highlighted reform of the macroeconomic regulation and control system. Outstanding achievements were made that advanced development and maintained stability. This reform experience should be summarized at once, and required improvements and augmentations put into effect. However, enterprise reform was relatively sluggish, and the transformation of government functions is still far from complete. This is also a deep down reason for the rather complex situation that has appeared today. During the next step in reform, two tasks must be given attention. One is earliest possible founding of a social security system and close attention to enterprise reform. The second is active exploration of the nexus for the transformation of government functions and reform of the investment system to make reforms in these two fields mutually reinforcing and complementary, and to create conditions for the formation of a fine macroeconomic environment.

Excerpts of Deng Xiaoping's View on Economic Work
95CE0139A Beijing JINGJI RIBAO in Chinese
7 Nov 94 pp 1, 5

[Article by Yan Jianqi (7051 1696 3825), Deng Xiaoping Study Group, Party Literature Research Center of the CPC

Central Committee: "Status and Fundamental Guiding Principle of Economic Work—Studying Comrade Deng Xiaoping's 'Some Opinions on Economic Work'"]

[FBIS Translated Text] Most of the 14 articles in the newly supplemented Volume 2 of *The Selected Works of Deng Xiaoping* are about economic work and economic reform. These articles give expression to some extremely penetrating and farsighted ideas and concepts developed by Comrade Deng Xiaoping at the initial stage of reform and opening up. The article "Some Opinions on Economic Work" is highly representative in this respect.

The article is actually a speech that Comrade Deng Xiaoping delivered on 4 October 1979 at a symposium of CPC committee first secretaries from all the various provinces, municipalities, and autonomous regions. He set forth, from six aspects, the most fundamental problems encountered in economic work, and many of his major viewpoints can give us, still today, meaningful guidance in our economic work.

Economic Work Is Presently Highest Politics

In his speech, Comrade Deng Xiaoping stated the purpose and main theme by first of all emphasizing: "Economics is presently highest politics. Economic issues override all political issues. Not only for the present, but, I am afraid, for a long time to come, emphasis in all our work will have to be on economic work." He said: "What we call politics is nothing but the four modernizations." The core of Comrade Deng Xiaoping's economic thought is that in the new era, economic construction must be made the uppermost political task of the entire party and entire nation. According to a fundamental concept of Marxism, human productive activity and raising the productive forces of society are basis and motive force for progress in human society. Economics is the foundation of society; politics is the superstructure. Productive forces determine production relations, and the economic basis determines the superstructure. It is precisely as Comrade Mao Zedong set forth in his "On Practice," when he said: "Marxists believe that the productive activities of mankind are the most basic acts of practice, they are what determines all other activities." After establishing a socialist system in a country like China, which is somewhat backward economically and also in matters of education, developing the economy is of a particular historical significance and urgency.

For a very long period of time in the past, development of the social productive forces has never been soberly recognized as occupying core position in socialist theory and practice. Especially during the "Great Cultural Revolution," the "gang of four" used to expound, "let us rather have poor socialism than prosperous capitalism," and their extensive so-called "productionism," had economy and politics under socialism split apart and stay in opposition to each other. They repeatedly used their type of so-called "politics," a chaotic disturbance of

party and nation, in their assaults against the socialist economic construction. After the "gang of four" had been smashed, this most confusing theory simply had to be cleared up. Following the 3d Plenary Session of the 11th CPC Central Committee, Comrade Deng Xiaoping succinctly pointed out: "Socialist modernization is presently our highest politics because it stands for largest benefits and most fundamental benefits for the people."

Along this line of reasoning, which fully conforms with the actual conditions of China, Comrade Deng Xiaoping arrived at the conclusion that "economic work is presently the highest politics; economic issues override all political issues." This conclusion was arrived at by starting out from the realities of the Chinese condition; it is the result of a scientific analysis and is a characteristic feature of the dialectic unity of relations between economics and politics at China's initial stage of socialism. It is a new Marxist assessment of the relation between economics and politics, arrived at under the new historical conditions.

"Using economic policy to resolve political problems." This important concept of Comrade Deng Xiaoping was for the first time made public in the supplemented and revised Volume 2 of *The Works of Deng Xiaoping*. However, it is an idea that had been persistently pursued by Comrade Deng Xiaoping. After the "gang of four" had been smashed, numerous new tasks had to be taken up. Faced with the intertwined conflicts between old and new and the multitude of complex affairs, Comrade Deng Xiaoping emphasized the necessity to be apt at adopting in one's thoughts and in actual work the method of firmly seizing the main contradictions, and by resolving the main contradictions effect resolution of all other contradictions. He pointed out that discussion of the problem, what line of thought to follow, must be a deeply penetrating discussion, but this line of thought must also intrude day-to-day work, mainly economic work. Any discussion of the criteria of truth should also be closely linked with the realities. Each factory, village, and school must specifically resolve its own actual problems. He specially pointed out: "Political work must be made effective in the economic field, political problems must be resolved from the economic angle. For instance, the policy issue, the employment problem, the problem of educated youth returning to the cities after working in the countryside, these are all social and political questions, but it is still of primary importance to solve them from the economic angle. Without economic development it will forever be impossible to solve these problems." It is for this reason that Comrade Deng Xiaoping repeatedly emphasized during the last 10-odd years that this matter of developing social productive forces must be firmly grasped and never abandoned, it must not be delayed by even one day. All other tasks must be subordinated to and must revolve around this one key task of economic construction; there must be absolutely no interference with it and no opposition to it.

Economic Work Must Be Conducted According to Economic Laws

On economic work, Comrade Deng Xiaoping propounded the following ideas with great emphasis: "Economic work must be conducted according to economic laws." In his article "Some Opinions on Economic Work," he pointed out: "Our work must be substantial and produce truly effective results. As the saying is, 'arouse to vigorous action, don't encourage sham effort,' or, in scientific terms, conduct work according to objective laws. Economic work must be conducted according to economic laws; there must be no deceptive practices, no useless shouting of slogans, all methods must be scientific throughout."

This is after all a common sense principle. However, in economic work of the past, many methods, such as "issuing confusing directions," "boasting and exaggeration," "unrealistic production targets," etc. had violated economic laws and have given us some very painful lessons. The "rash advances into foreign involvements," that set in after the "gang of four" had been smashed, caused a serious imbalance in the national economy. How to conduct affairs according to economic laws is now an important, and also immediate problem that we are faced with in our economic work.

On the question of conforming in our work with economic laws, Comrade Deng Xiaoping has expressed some important ideas and views in some of his lectures and talks on the subject of economic work.

1) "Conforming in our work with laws of economics means nurturing persons capable of working according to economic laws."

In his speech in 1979, Comrade Deng Xiaoping brought up this question and pointed out: "If we don't start now, if we don't start out with a partial effort, our undertaking will suffer delay and will become hopeless." In a conversation with leading cadres of the State Planning Commission, he said in October 1982: "Doing an effective job of scientific and technological work and also of nurturing and using well-trained personnel: that, I think, is very difficult." "This problem must be solved in every trade and every profession—including the enterprises—and fulfillment of our 20-year plan critically depends on it." Later, in 1985, he again emphasized at the All-China Science and Technology Conference: "What is most important and what I am most concerned about in the reform of the economic structure is still the nurturing of well-trained personnel." It is easy to see that when talking of these questions, Deng Xiaoping is still doing so within the framework of a discussion on the main topic of economic construction.

2) The need to accurately handle the relationship between adjustments, reform, and development.

A Central Committee work conference in April of 1979 decided on the eight-character policy of "adjustments,

reform, consolidation, and raising economic returns." Undoubtedly, economic adjustments and consolidation are bound to affect the speed of economic development. This touches on the problem of accurately handling the relation between adjustments and development and on the problem of conducting affairs according to economic laws while still maintaining speed. At the conference in October of the same year, Comrade Deng Xiaoping pointed out that our adjustments "are for the purpose of creating conditions that will make it possible in the process of adjustments, and especially also after the adjustments, to achieve a much better and much faster developmental speed." He believed that it does not matter whether the growth rate of total industrial and agricultural output during these two years would be somewhat higher or lower, as long as the figures for growth rate were completely trustworthy and not inflated, products are of good quality, and thus truly representative of progress in our production. If these points are successfully accomplished, it will improve our working methods, and could also raise the level of our management and technology, also add substantially to the benefits that will actually be gained. To achieve a better and faster growth rate in the economic development for a prolonged period of time, Deng Xiaoping admonished to proceed with extreme caution as to consequences and to look ahead into the future. Even with all the planning and pondering of problems done during the period of adjustments, one must still adopt a broad vision and prepare for new productive forces in the future. After the 12th National Party Congress, when China set in motion the all-round socialist modernization, reform, and opening up, he spoke in October of 1982 of the need to prepare for a race against time. If a project can be started earlier, let us concentrate funds to start it earlier, starting on it one year earlier will bring profits one year earlier, otherwise, it might become delayed into the next century.

In June of 1986 he again said: "Even during the ongoing reform process we must maintain effective development of production, must not against better judgement pursue too high a speed of production, while too low a speed would also be unacceptable." "If we can manage to maintain a fairly rapid growth rate in the coming few years, we shall thereby substantially reduce whatever risks could possibly be encountered in the further deepening of the reform."

At the time when the economic regulation and consolidation was started in 1988, when the Soviet Union disintegrated, and when the international situation in Eastern Europe changed dramatically, Comrade Deng Xiaoping made a succinct statement from a political angle, in which he raised the importance of the economic growth rate as an affair that affects the very fate of China's socialism. During a talk in March of 1990, he incisively pointed out that "it is necessary in the process of retrenchment and consolidation to reach an appropriate development somewhat earlier," because low growth rates over a prolonged period of time pose not

only economic problems, but will actually become political problems. He believed that in order to maintain the existing stability in the political environment, it is indeed necessary to rely on enhanced ideological-political work and on the need for arduous struggle, but that that alone is not sufficient. "The most fundamental factor is still the economic growth rate and, furthermore, that it manifest itself in an improvement of the people's living standard." "If China is to hold out against hegemonism and against the pressures of power politics, and if it is to preserve the socialist system, it is vital that it is capable of achieving fast growth rate and that we fulfill our developmental strategy."

To sum up, from the start of the new era, i.e. from the end of the 1970's, when economic construction was initiated with adjustments and reform, to the beginning of the 1990's, when three years of retrenchments and consolidation were concluded, the economy began to soar up again. At critical times, when disturbing fluctuations occurred in the economy, Comrade Deng Xiaoping, with extremely accurate timing, warned the entire party to heed the relationship between immediate objectives and the long-term developmental strategy. He then, again in good time, scientifically analyzed the cyclical phenomena of a law-guided nature that had appeared in economic developments and summarized them, thereby raising them to the higher level of a theory.

3) In Formulating Policy and Long-Term Planning, Starting Point Must Be the Realities of the Situation, Ensuring Achievement of Key Strategic Objectives.

The second edition of the Volume 2 of *The Works of Deng Xiaoping* contains Comrade Deng Xiaoping's conversation with Masayoshi Ohira, in which he formally stated for the first time that he set the achievement of the four modernizations at the end of this century as the time limit for the realization of the state of a "comparatively well-off family." By raising the concept of the "comparatively well-off family" he indicated that he had completely abandoned the "unrealistic production targets," that had haunted us for such a long time, and it was also at this time that the developmental strategy of the "three-step advance," that Comrade Deng Xiaoping had later conceived, was started.

Raising the "comparatively well-off" concept was not accidental. In a speech on 30 March of the same year, he had already said: "As we now engage in construction, we must also conform to the conditions in China, must go a road of Chinese-type modernizations," and what are "Chinese-type modernizations"? In his article "Some Opinions on Economic Work," Comrade Deng Xiaoping gave a clear definition: "We had opened our big mouth, declaring that we will realize the four modernizations by the end of this century. Later we came down a bit and called it Chinese-type modernizations, i.e. we lowered our criteria a little. Especially the gross national product on an average per capita basis cannot be very high." He said: "Our present per capita GNP is probably somewhat

below \$300, and doubling or tripling it is not easy." In these ideas we see fully manifested Comrade Deng Xiaoping's spirit of consistently seeking the truth and dealing with the realities, we also see manifested his principle of doing things and planning all objectives for economic construction according to the laws of economics.

Ensuring achievement of key strategic objectives is an important concept in Comrade Deng Xiaoping's strategy for economic development. He pointed out as key objectives in China's strategy for economic development: energy sources, communications, and agriculture. "Faster economic development is a matter of science and education."

4) Effective Improvement of Product Quality, Attention to Beneficial Economic and Social Results.

As early as 1975, toward the end of the Great Cultural Revolution, when Comrade Deng Xiaoping had charge of the overall consolidation of the Central Committee operations, he set forth that "our major policy must be to give priority to quality," "raising product quality is the greatest act of economizing," "gaining compatibility in the international market requires relentlessly working on the improvement of product quality." In his article "Some Opinions on Economic Work," he also said, "concentrating efforts on improving quality is the most prominent problem in our efforts at readjustments. If we can be successful in this respect, we will reap great benefits in future and have a much more solid foundation."

In two of his speeches, one in July and one in September of 1985, Comrade Deng Xiaoping again emphasized: "At the core of industrial production, especially production of exports, there must be improvement of quality, bringing quality up to first class." "We must institute legislation to guarantee product quality and stop all fraudulent practices. The problem of quality must be conspicuously presented and effectively resolved." "It is absolutely necessary that we first of all get a firm grip on management and quality, that we strive for economic returns and overall social benefits, that alone would be the right kind of growth rate." In his speech early in 1992 after concluding his inspection tour of the south, he even more strongly emphasized that precondition for accelerated development must be "more attention to return, more attention to quality, and conducting an export-oriented type of economy."

Whenever speaking of economic work during the last 10-odd years, Comrade Deng Xiaoping always mentioned the problem of economic returns and quality. Without economic returns and quality, there would be no substantial gain in speedy production, and the material foundation for socialism would not be a stable one. Economic returns, social benefits, and product quality are crucial issues, especially the quality question is essentially the much larger issue of raising the quality of the entire Chinese nation.

Using Foreign Capital Is Excellent Policy

When Comrade Deng Xiaoping was pondering in his article "Some Opinions on Economic Work" a strategy for the promotion of the development of the entire national economy, he proposed: "Using foreign capital is excellent policy." As early as August 1975, in a talk entitled "Some Opinions on the Development of Industry," Comrade Deng Xiaoping had already clearly stated that importing new technologies and new equipment, as well as expanding imports and exports is great policy. Of course, during the time the "gang of four" were on the rampage, this great policy could not be implemented. After the "gang of four" had been smashed, Comrade Deng Xiaoping stated in many of his speeches that we should make the world's advanced technologies and advanced achievements a starting point for our own development. To solve the problem of the serious shortage of capital, technologies, and equipment, as needed for large-scale development, we must free ourselves from the restrictive "Leftist" ideology of "never borrow domestically or externally," and must be quite clear about a policy of utilizing the international market to raise capital funds.

However, prior to holding the 3d Plenary Session of the 11th CPC Central Committee, there was a rush to undo the effects of the "Leftist" ideology, and in the one year of 1978 imports of technologies and equipment amounted to \$7.8 billion, most of it to be paid by spot exchange and far in excess of the state's capabilities. In the course of the policy adjustments, decided upon in 1979 by the Central Committee leadership, among them Deng Xiaoping, Chen Yun [7115 0061], and Li Xiannian [2621 0341 1819], it was agreed to uphold the policy of opening up to the outside world, but also to review past experiences, and do whatever was within the capabilities of the country. It was precisely against this background that Comrade Deng Xiaoping, after proposing in April of 1979 the establishment of special economic zones, again stated most succinctly in his article "Some Opinions of Economic Work" that the great policy of utilizing foreign capital should be maintained. He also proposed that comprehensive studies should be undertaken as to the methods of using foreign capital, and quoted several specific methods, basing on the experiences made by other countries, of utilizing foreign capital. He emphasized that it is necessary to approach problems with a long-term view, to be resolute, weigh advantages and disadvantages, to keep clear accounts, and to go ahead even if slight losses are incurred, as long as it will add to China's productive capacities overall and will also give impetus to some of China's other enterprises. He also set forth that in the study of finance and economics, there is one standpoint we should maintain, namely to utilize foreign capital to the fullest and to show ourselves adapt at utilizing foreign capital. All these ideas have had at that time a significant stimulating effect in affirming the entire party's resolution to open up to the outside world and to develop this policy in depth.

Comrade Deng Xiaoping's ideas on the strategy of opening up to the outside world have always been made with an eye to the future and with an eye on the situation as a whole. From a high historical level, he resolutely made his decisions to open up new prospects, and he manifested the courage to effect new breakthroughs, far beyond the foresight and sagacity of his predecessors.

Principles of the Reform of Public Finance and Banking

The reform of China's economic structure was begun at the same time as the process of economic adjustments had been initiated. A most serious problem at that time was how to resolve the excessively rigid centralization exercised by the central authorities under the system of planned economy; there was no economic democracy, and there was a lack of vitality in the local authorities as well as in the enterprises. This problem manifested itself most conspicuously in the problem of how to handle the relationship between central finance and local finance. Comrade Deng Xiaoping set forth a general principle for the reform of this issue. He said: "We are, generally speaking, rather overcentralized in our financial structure. Some areas should be decentralized and need to be transferred to the local authorities, increasing their financial jurisdiction somewhat and allowing them more room to maneuver; this should be our overall policy." At the same time he also pointed out in very clear and definite terms: "If the central authorities are left without a certain amount of funds, they would in many cases not have the strength to perform important tasks that should be done, and would not be able to undertake key projects that could only be effectively done with central authority investment." "Whenever this question is now brought up it is always said that there is too much centralization and that there should be more decentralization, without considering that in certain cases centralization is necessary. The central authorities must ensure a certain amount of centralization."

As we now look back and recall these 1979 statements by Comrade Deng Xiaoping, we deeply feel that these views are even today still appropriate and of real relevance. The all-round contract system, which involved the "eating from separate kitchens" [separate budgetary plans for central and local authorities], although of some positive effect, reduced the financial resources of the central authorities to their historically lowest point. Of course, "ceding powers and yielding profits" [tax revenue sharing] was a stage that we had to pass through in order to break with the high level of centralization. However, in the long run, instituting the system of socialist market economy and developing socialist market economy still requires that a substantial share of the GNP should become the financial revenue of the central authorities. Otherwise, the decline in the financial resources of the central authorities would mean they would lack the economic strength to regulate and control the overall situation. Practice has proven that in a large and poor socialist country like China, with very uneven economic developments as between its various regions,

it is absolutely essential that the central authorities have a substantial amount of financial resources at their disposal and that a certain degree of centralization be retained. This would indeed be needed to resolve the problem of regional disparities, to build up a large-scale infrastructure, to develop basic industries, to develop science, technology, and education, to withstand large natural calamities, to raise the overall national strength, to raise living standards for the entire population, and to attain within a short time China's strategic objectives in economic development. It would also provide an objective basis that would allow fullest display of initiative on the part of both the central authorities and the local authorities, and basis for a proper measure of centralization as well as decentralization. The 3d Plenary Session of the 14th CPC Central Committee decided to change the system of having the local authorities take full financial responsibility into a system of dividing up tax revenue on the basis of a rational division of authorities as between the central authorities and the local authorities, thus establishing a central tax revenue system and a local tax revenue system. The rational division of central and local economic administrations and jurisdictions, and bringing fully into play the initiative of both the central authorities and the local authorities means opening up a new way for institutionally resolving the relationship between central authorities and local authorities.

When he touched on the reform of the system of public finance in his article "Some Opinions on Economic Work," Comrade Deng Xiaoping for the first time stated clearly and definitely: "Banks must be turned into true banks," and that the system of fund allocations must be reformed. "Any unit that requires a bank loan to take delivery of materials must pay interest." As Comrade Deng Xiaoping so succinctly pointed out at the very beginning of the reform the various shortcomings of the system of public finance and banking, and as he also revealed his train of thought on how to reform the system, he was the first to effect a break with the monetary theories of the traditional planned economy.

With the gradual deepening of the reform, Comrade Deng Xiaoping's line of thought in this respect gained in clarity. In a discussion with several leading cadres of the central authorities, in December of 1986, he elucidated his views: "We must take larger strides ahead in our monetary reform, we must turn banks into true banks. In the past, our banks had merely been currency issue companies; they were treasuries, but not genuine banks."

Throughout all the 10-odd years of reform experiments, these ideas of Comrade Deng Xiaoping have withstood the test of actual practice and also manifested their value as theory. The "Resolution," passed by the Third Plenary Session of the 14th CPC Central Committee, made the establishment of policy-related banks and the development of commercial banks part of the reform of China's monetary system.

If we now carefully and critically study all of Comrade Deng Xiaoping's speeches given 10-odd years ago, we deeply feel that they constitute an important body of literature on the theory of establishing socialism with Chinese characteristics. Many important theories and the views expressed in them occupy an important historical position in the process of forming the theory of Comrade Deng Xiaoping's thoughts and theories, and as such they are still today giving us meaningful guidance.

Symposium Stresses Importance of Controlling Inflation

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[Article by Gao Fulai (7559 4395 0131): "Inflation Must Be Checked"]

[FBIS Translated Text] On 30 June the fourth socialist market economy symposium was jointly held by the headquarters of the Beijing Economics Society and the Beijing Economics Academy. The topic was the price issue. Over 50 participants, including well-known figures from the theoretical community and comrades in charge of functional departments, had a heated discussion on the current price situation and existing problems.

1. Current Price Situation and Problems

There have been three major surges in commodity prices since reform went under way, in 1985, 1988, and since last year up to now. The commodity retail price index rose 13 percent on the average nationwide last year and jumped 17.6 percent in December, making 1993 the third year since reform was launched in which prices hit a peak. What do we make of the overall price situation in the first half of this year? Which way are prices headed in the remaining half of 1994? These questions are of intense interest to the public.

Commenting on the current price situation, Wang Yongzhi [3769 3057 3112] of the Economic Studies Center under the State Planning Commission said: "At a time when the economy overall is improving, prices continue to stand out as a major problem. The inflationary momentum has been slackening off, but one cannot relax price control work." Right now the national economy is doing well, as demonstrated mainly by the balance in government revenue and spending, financial stability, export growth, the booming market, and the fact that the renminbi has held steady and even strengthened a little versus other currencies and agricultural output has been on the upswing. However, prices remain a glaring problem in economic life. Between January and May this year, China's commodity retail price index and the consumer price index rose 19.8 percent and 22 percent, respectively, over the same period last year. The prices of every category of consumer goods and every type of service charge increased more than 10 percent, 20 percent in the case of agricultural capital goods, and over 20 percent in the case of all sorts of food products. But

the inflationary trend has been easing up. Between March and May, the overall retail price level rose 20.2 percent, 19.5 percent, and 18.9 percent each month compared with the corresponding month in 1993, a rate of increase of 0.7, 0.7, and 0.6 percentage points from the preceding month. Consumer goods price increases have been losing steam month after month, rising 15.8 percent in January, 10.3 percent in February, 5.2 percent in March, 0.4 percent in April, and -2.6 percent in May, or 3.7 percent on the average for the entire January-May period. In contrast, the prices of capital goods shot up 44.4 percent in the first half of 1993. As macro regulatory and control measures are tightened, the upward price trend will be checked.

Be that as it may, there is no room for optimism. Right now there are still too many factors driving up commodity prices. The prices of primary products and the charges of infrastructural facilities have been raised in recent years and the cost-driving impact of these changes will continue to be released. New inflationary factors are gathering force gradually. There is enormous potential pressure for widening the scale of investment. It is still too early to predict the state of the fall crop this year and it is possible prices may rebound. Prices rose about 19 percent or so in the first half of the year and it would be an impressive achievement to contain price increases to about 13-15 percent in the second half of this year. But it would be an uphill battle to pull this off. In the opinion of some comrades, limiting price increases to under 20 percent is already no mean feat. Although the inflationary momentum has been moderating, prices continue to rise and we cannot afford to be slack in our work at all.

In what ways does the latest surge in commodity prices differ from those in 1985 and 1988? Professor Zhao Gaishu [6392 2395 2579] of the Department of Trade and Economics at the Beijing Economics Academy has identified the following salient features. First, the latest price surge was led by increases in the prices of basic commodities, triggered off by increases in the prices of grain and cooking oil, and derived its staying power from the adjustments of grain and cotton prices. Fueled by fixed assets investment the previous year, the ex-factory prices of capital goods soared 33.7 percent in 1993, directly driving up the ex-factory prices of products by 35.1 percent and boosting production costs in a range of industries and therefore jacking up the prices of manufactured goods across the board. The prices of grain and cooking oils rose sharply in the first half of last year, soaring 30 percent in just a few months. The adjustment of grain and oil prices in 1994 has been the force sustaining the rise in the overall price level. Second, the overall price level has kept on fluctuating at an elevated level. The overall price level rose 13.2 percent nationwide in 1993 compared with the preceding year and has remained stuck at a high level. Third, inflation has affected almost all prices. Not only have the prices of consumer goods risen sharply, but so have those of fuels,

building materials, and agricultural capital goods. Fourth, enterprises, institutions, and consumers have higher inflationary expectations. They try in every possible way to pass price increases onto others and select high-yield investments as a hedge against inflation. Only as a last resort would they purchase in advance commodities whose prices are expected to go up or deposit their money in the bank.

2. Direct Causes of Price Fluctuations

As symposium participants see it, price fluctuations are caused by both specific direct causes and underlying factors. Among the former are:

1) Price increases have been driven by the deregulation of the prices of capital goods. Those prices were never straightened out since reform got under way. In 1979 the prices of agricultural products were raised by a wide margin. The next step should have been to raise the prices of capital goods. Instead we created an anomalous dual-track pricing system for capital goods in order to make reform less traumatic and ease the transition from the old system to the new. The subsequent emergence of a market economy and the change in the identity of the principal price-setters have made possible the release of the upward pressure on capital goods prices in full force.

2) Changes in the grain procurement and marketing system have driven up prices. The grain procurement and marketing system was overhauled in 1993. In 1994, after word got out of a corresponding increase in the procurement and selling prices of grain, grain-producing areas became reluctant to sell. Moreover, less farmland was sown with grain in 1993, resulting in a drop in per capita grain supply and widening the supply-demand gap. Consuming areas rushed to the producing areas in search of grain and a round of panic purchasing ensued, sending grain prices through the roof.

3) Cost-driven price increases. Some comrades consider the current round of price increases both cost-driven and demand-led, but primarily the former, for the following reasons. First, demand-led price increases eventually become cost-driven price increases. Most investment demand pushes up the prices of capital goods, while a small percentage (about 40 percent in our experience) is converted into consumption funds. Most consumption funds take the form of wage expenditures. In 1993 total wages nationwide rose 21.1 percent over the preceding year and the average worker saw his wages increase 19.4 percent, both figures higher than the 13.4 percent gain in GDP. Second, in recent years the prices of primary products and the infrastructure have been adjusted, intensifying cost-driven inflationary pressure. The costs of industrial products rose 28.3 percent this year from the same period a year ago, while the procurement prices of fuels, raw materials, and power shot up 24 percent. Fixed assets investment prices climbed 26.6 percent last year, more than any other year since reform was launched.

4) Tax adjustments and tax reform have driven up prices. The retail sales tax rate was adjusted from 3 to 5 percent in 1993. Most retail stores raised the differential between procurement and selling prices by anywhere from 3 to 5 percent, no doubt pushing up prices.

5) Price fluctuations have something to do with disorder and the lack of rules in the economic arena. A widely held view these days is that if we want a market economy, prices must fluctuate constantly. It is believed that there is no such thing as price stability in a market economy, that stabilizing prices is an outdated concept that belongs in the planned economy. It is also assumed that price reform effectively means deregulation and that regulation and control would stifle the economy. Deregulation and management are seen as mutually exclusive. In the absence of a comprehensive body of laws and regulations, we have no rule to go by once prices are deregulated. The market may be the principal price-setter, but it is not the sole factor. What is also needed is state regulation and control. As a matter of fact, governments in Western nations also tackle prices as a top priority; commodity prices are not set casually. At present prices in China reflect neither the law of value nor the supply-demand relationship.

6) High consumption by a number of upstarts has added fuel to the flame of inflation. These people buy leather jackets costing hundreds of thousands of yuan apiece and 10,000-yuan suits and Italian shoes. For them, money is no object. All this reflects the disorder in our prices. Some people try to profit from it to make a killing, in the process driving up prices.

3. Underlying Causes of Price Fluctuations

Price fluctuations have deeper underlying causes as well. In the opinion of most comrades at the symposium, price increases are not inherent in price reform as such. Another major factor is the money supply. Specifically, they said that too much money has been pumped into circulation so that aggregate social demand now exceeds aggregate social supply. Had the money supply not been inflated, prices would not have risen so fast. The money supply has been expanding an average of 35.8 percent each year during the past 2 years, far higher than the rate of economic growth. At a deeper level, we have to know something about inflation.

1) Inflation

Is inflation good or bad? Should it be brought under control or allowed to rage unchecked? That was one major issue discussed at the symposium. It was thoroughly analyzed by many comrades. Wan Dianwu (8001 0368 2976), director of the Commercial Studies Institute at the Ministry of Commerce, enumerated inflation's five evils. In the final analysis, he said, prices have to do with the money supply. Fundamentally it is a question of how we look at inflation. Is inflation really a good thing or a bad thing? In his opinion, inflation has five evils. First, it hurts production. With prices rising endlessly, it

is difficult to plan production. As soon as grain prices were adjusted, for instance, the prices of agricultural capital goods went through the roof. Second, it hurts distribution. Skyrocketing prices pose the greatest danger to people on fixed incomes. It is like picking their pockets. The state treasury is another victim. Since it cannot cut back on spending, in effect it is taking in less at the revenue end. Third, inflation hurts exchange. An enterprise may show a profit on paper from an inter-enterprise exchange, but it is actually losing money. As money loses its usefulness as a measure of value, we must resort to barter trade. Fourth, it hurts consumption. What do the masses complain about most? Corruption and inflation. Fifth, it hurts reform. Inflation tarnishes reform's reputation. People assume mistakenly that reform is simply rising prices. For all these reasons, Wan Dianwu wants the theoretical community and workers in the field to talk more about striking a balance and spend less time pushing inflation theories. "The deficit is harmless." "Inflation is good." "Optimal inflation." "Tight operation." "High growth, high prices, high incomes." All these theories essentially assume inflation is a good thing. They are specious and erroneous and should be corrected. The inflation problem must be resolved properly, otherwise we will be in trouble. Professor Hu Daiguang [5170 0108 0342] of Beijing University gave an analysis of inflation from the angle of Western economics. Some people, he said, point to the Feilipusi curve as an accurate description of our situation without really understanding the curve. The so-called Feilipusi curve purportedly demonstrates the trade-off relationship between the rate of price increases (inflation rate) and unemployment rate by means of a coordinate graph. Central to the Feilipusi curve is the notion that there are trade-offs to be made between inflation and unemployment. To reduce unemployment, we have to accept higher inflation; conversely, to curb inflation, we must be ready to pay a price: a higher unemployment rate. The inflation rate and unemployment rate are inversely related to each other. The Feilipusi curve is valid in the short term but does not work in the long haul. The reality in capitalist nations proves that the higher the rate of inflation, the greater the number of people out of work. Instead of promoting employment, inflation is proportionately, not inversely, related to unemployment. At a time when scholars in capitalist countries in the West have declared the Feilipusi curve bankrupt, why has it become popular in China of all places? We should examine the circumstances in our country and not transplant foreign theories mechanically. Once inflation has taken off, it can be reined in only at a high price, both politically and socially speaking. Some people try to sell their "optimal inflation" theory. Others propose adjusting our economic structure through inflation. All these theories have Western philosophical roots, yet these people have no thorough understanding of the Western experience. We should encourage people to study the Western experience comprehensively, instead of following perception.

2) Public tolerance

Many comrades at the symposium analyzed the issue of public tolerance and argued that an overestimate of public tolerance is one of the factors behind excessive price increases. Professor Ye Shanpeng [0673 0810 5570] of People's University said that tolerance is a fuzzy concept. What is tolerable? What is intolerable? There should be a quantitative standard. We had double-digit inflation in only 5 years after the PRC was founded, but this year inflation topped 20 percent. Given this inflation rate, banks are actually paying negative interest on 1- and 2-year fixed deposits. The real incomes of some people have indeed gone up, but those of many others have declined. In some cities, 50 percent of the population have seen their living standard go down. In other words, over half of the people in some cities cannot cope with price increases. Moreover, it is no longer possible to measure tolerance using the traditional method. In the past, wages were low, but since there were few worries, people somehow managed. Now that child care costs, tuition, health care costs, and housing expenses all must come from his own pocket, the average person has more things to worry about. In reality these several items alone constitute an unbearable burden. In studying the issue of tolerance, we cannot look at the average income level vis-a-vis the average price level alone. We also need to examine the low-income level vis-a-vis the price level. These days, many people belong in the low-income category—retired workers, college and technical secondary school students, low-wage workers, and the employees of enterprises operating under capacity or losing money. To these people, current price increases have already become unbearable. Some people these days believe that the public can cope with double-digit inflation. But 99 percent is also double-digit. Can the masses cope with that? Assess public tolerance for inflation correctly. Jia Kecheng [6328 0344 1004], a research associate at the Institute for Economic Research under the Beijing Economics Academy, further argued that it is indefensible theoretically to adjust prices based on public tolerance for inflation. Instead wages should be pegged to inflation. This, he said, is the only way to prevent a drop in workers' real wages and ensure the reproduction of the labor force. We cannot do it the other way round: raising prices based on wages, that is, we cannot raise prices just because the public finds it tolerable. When a price should not be raised, it must not be raised even if the people can handle it.

4. What Is To Be Done

With the grim situation on the price front in mind, the participants examined ways of bringing rising prices under control and agreed that we should concentrate on doing a good job in the following areas:

First, achieve a consensus that inflation must be firmly resisted. Analyze in depth the danger of inflation. Gradually diminish the influence of a host of "inflation is good" theories. Even in countries with a developed

market economy, a relatively high per capita income, and a comprehensive social security system, those running for president call inflation their No. 1 public enemy when inflation hits double-digit. Here in China, in contrast, some people don't care about inflation, believing that all we need to do is hand out price subsidies to the masses. This line of thinking can easily trap us in a wage-price spiral.

Second, correctly understand the relations among reform, development, and stability. Changing the mechanism, adjusting the structure, and accelerating economic growth all have the effect of driving up prices. The question is how to limit the increase rate to a level tolerable by all walks of life. In essence decontrolling prices in the interest of economic growth without letting them get out of hand is an issue of sorting out the relations among reform, development, and stability, of reconciling short-term benefits with long-term interests. A critical issue here is finding a way to limit the annual rate of price increases. We should work to lower it in accordance with a plan and in conjunction with set economic development goals, gradually bringing it down to about 10 percent and then paring it further to below 4 or 6 percent. The key is to establish a growth rate and decide what prices are to be deregulated.

Third, deregulate the prices of primary products, the infrastructure, and basic services in stages. Assess enterprise tolerance for price increases and accelerate the overhaul of their operating mechanism, which is the root-and-branch way to enhance their ability to absorb increases in the prices of inputs.

Fourth, strictly control the prices of grain, cooking oils, "food basket" items, chemical fertilizers, pesticides, and electricity used in agriculture, keeping them fairly stable. Currently food still accounts for 50 percent or more of household spending, and increases in the prices of food items are a major factor behind consumer goods price increases. Stabilize the prices of grain, oils, and "food basket" items and there will be security in the lives of most people. What concerns peasants most is changes in the prices of agricultural capital goods. Provided we keep the prices of chemical fertilizers, pesticides, and agricultural electricity relatively stable, peasants would feel enthusiastic about increasing output. Establish a grain risk fund and other funds to regulate the prices of nonstaple foodstuffs, chemical fertilizers, and other agricultural capital goods. Create a reserve system for key commodities. The treasury should support them by increasing their total capital funds year after year. Money should be spent judiciously. Countries with a developed market economy such as the United States, Japan, and EC all spend large sums of money on agricultural subsidies. Data show that farm subsidies amount to 6 percent of total agricultural output value in New Zealand, 11 percent in Australia, 29.5 percent in the United States, 45.5 percent in Canada, 46 percent on the average in the EC, and 70.5 percent in Japan. More so than these countries, China cannot afford to simply nudge agriculture into the market, with the government taking a do-nothing policy.

Fifth, use interest rates to regulate the volume of money in circulation as well as the price level. Turn negative interest rates into positive ones, control the scale of investment using economic tools, and check inflation. Do not keep interest rates in negative territory with the excuse that higher interest rates would slow down economic growth or that deposits continue to rise anyway. Customize interest rates in coordination with the industrial policy. After the money supply is brought under control, optimize resource allocation and hold down prices by boosting the effective supply.

Sixth, perfect price management tools and regularize pricing behavior, including that of enterprises and intermediate organizations. To ensure competition, it is essential that the price-setting behavior of enterprises be regularized. Integrate the monitoring, supervision, and control of commodity prices, market trend services, and the transmission of price information with the gradual regulation of enterprise pricing behavior. Guide enterprises to create a positive image and fulfill their social responsibility. In the absence of a comprehensive body of laws and regulations, price inspections are a must. Price deregulation does not mean the state should take a laissez-faire approach toward prices. Government intervention of varying degrees is necessary in determining the market prices of a small number of key commodities and services. In the United States today, prices regulated by governments at all levels account for 7 or 8 percent of consumer spending, over 10 percent in the case of low-income consumers. In Germany, the number of prices regulated directly or indirectly by governments at all levels accounts for 41.7 percent of all categories in the consumer price index and 20 percent of all social commodities (including consumer goods and capital goods) and labor services. In Japan, government-regulated prices account for 18 percent or so of total consumption. Certainly China too must step up price management, not the traditional form of price management but one that meets the needs of building a market economy. This is a long-term and arduous task.

Director Yu Guangrui [0060 0342 3843] of the Beijing Price Bureau and Yang Silei [2799 1835 4320], who is in charge of price inspections, briefed the symposium about the macro regulatory and control measures taken by Beijing to check price increases and the situation regarding the general price inspection.

(writer's unit: Beijing Economics Academy) (responsible editor: Xiao Da [2556 6671])

Stronger Macro Measures Urged To Control Inflation
95CE0142B Beijing JINRONG SHIBAO in Chinese
9 Nov 94 p 1

[Article by JINRONG SHIBAO commentator entitled: "Continue To Strengthen Macro Regulation and Control To Vigorously Curb Inflation"]

[FBIS Translated Text] This year, as the economy underwent rapid growth, the state also successfully pushed

forward several tax, financial, foreign exchange, foreign trade, investment, and other reform measures. They have produced positive effects at home and abroad. The nation's economic development and reform have gathered momentum.

With respect to finances, currency input has been normal. In the first six months, 8.3 billion yuan was taken out of circulation, putting in 61 billion yuan less than in the same period last year. On entering the second half of the year, even though money input accelerated in July, August, and September, overall, currency input between January and September was 19 billion yuan less than in the same period last year. Savings in the cities and the countryside continued to increase rapidly, at a rate exceeding 40 percent between January and September.

Today, a more serious economic problem is the high inflation rate. Last year, the nation's retail price index rose 13.4 percent, and this year, between January and September, it went up 20.9 percent; the inflation situation is grim. Judging by the current situation, the macro regulation and control and economic reform measures introduced by the central government last year were correct. The central bank has not eased its money supply, and by the end of September of this year, the central bank has reduced its loans by more than 120 billion yuan compared to the same period last year; its loans have mainly been directed to the state's key projects and for the procurement of agricultural and sideline products. The financial chaos, the reckless short-term lending and borrowing, and reckless fund gathering activities which began to appear last year have basically been put under control; there has been no excess currency issuance. The central bank's tight control of the issuance of currency and the credit volume has played a very important role in curbing inflation. Recent price increases have been reflected mainly in higher food price indexes and structural price increases due to reform-related price increases in some resource-type goods. In recent years, because of excess fixed asset investments, agriculture's relative profit has been on the decline. In June of this year, the State Council made a fairly substantial adjustment in the procurement prices of agricultural and sideline products. That move has some effect on current prices, but it is still limited in scope. In the long-run, it may have a more profound impact on increasing the supply of agricultural and sideline products and on keeping the prices of foodstuffs down.

The root cause of this round of price increase this year is still the excess investments in capital construction and excess consumption. First, the over-expanded scope of society's fixed asset investments has not subsided. Investments in July and August rebounded, and in just two months' time, more than 9,000 new projects were started; investments in projects already under construction remained substantial. At this rate, this year's fixed asset investments will increase no slower than last year's. Fixed asset investment loans are under control now, and

basically all loans are directed to the state's key point constructions. Currently, the main sources of funds supporting the excess increase in fixed asset investments are, one, enterprises' own funds, and two, foreign-invested funds. The financial ministry's credits also play a definite role. We must diligently look into and adopt some effective measures to strengthen macro regulation and control and industrial policy guidance. Second, currently, consumption funds are increasing much faster than society's labor productivity rate; they continue to take an expansionary posture. Third, the circulation domain is chaotic; management is too loose, which tends to abet profiteering, cheating, and price gouging. In addition, some localities have the idea that "it is foolish not to raise prices," and they are determined to seek rapid growth, high prices, and high wages, which undermine efforts to curb inflation.

Excess investment scope and over-accelerated rate of increase in consumption funds are not conducive to the national economy's sustained, speedy, and healthy development and to its stability. The Party Central Committee and the State Council have already stated unequivocally that curbing inflation will be the most important part of their economic work in the fourth quarter and during next year. To curb inflation, we must first emphasize unifying the localities' and the departments' understanding and resolutely banish the erroneous ideas of "inflation is harmless" and "it is foolish not to raise prices." The localities and departments must foster a concept of the whole and work together in hearts and minds to take comprehensive steps to cure the symptoms and the root causes of the problem. Otherwise, inflation will bring more problems this year and well into the future.

Today, we must continue to strengthen macro regulation and control. In particular, we must tightly control the scope of fixed asset investments and be strict in examining and approving projects. Without the State Council's approval, no new projects may be started. In particular, we must tighten the control over local projects and the source of funds localities and enterprises raise on their own. Income from local land leases should be managed under the financial ministry's budget. We must diligently strengthen the management of consumption funds. We should adopt measures to control the excess increase in bonuses and other incomes to within a reasonable growth scope and restrict the spending of public funds.

We must diligently strengthen agriculture's basic role and increase agricultural input to guarantee the supply for the "market baskets" and "rice sacks" and increase effective supply and the state's grain, cotton, and oil reserves. Today, it is especially important to do a good job with the supply and management of procurement funds for grain, cotton, oil and other staple agricultural and sideline products. Banks, financial administrations, and the procurement enterprises must have their funds ready in full and on time as planned to make sure that no

"blank slips"—IOUs—are handed out in agricultural and sideline product procurements.

We should tightly control the credit volume and currency input to control the increase in fixed assets investments and consumption funds. We should strive to make structural adjustments and speed up fund circulation. No locality or bank may exceed the loan scope and extend loans on its own. We must prohibit using short-term, daily-rate loan funds and circulating loan funds to finance fixed asset investments. For enterprises with sudden surges in accounts receivable and product stockpiles, additional loans must be suspended until all matured loans are repaid. We should support profitable enterprises with hot-selling products. Governments at all levels and departments in charge of enterprises must do a good job with clearing debts, limiting production, reducing stockpiles, and promoting sales. They must strive to enliven fund circulation and reduce the amount of idle funds.

Banks and financial institutions must strengthen cash management and tighten settlement discipline. They must strictly carry out their responsibilities with respect to the management of working funds and cash and strengthen over-the-counter supervision and tighten the examination and approval system. Banks must vigorously reform their settlement service and strictly abide by settlement discipline and speed up the circulation of settled funds. The adoption of these measures will facilitate the development of a good situation, lower the excessively high price level, and create a good macro environment for economic development and reform.

Research Institute Official on Inflation, Policy Choice

95CE0109A Chengdu SICHUAN JINGJI RIBAO
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[Article by Wang Jian (3769 1696), Vice Director, Economic Research Institute, State Planning Commission: "Main Reasons for Currency Inflation and Macro-Policy Alternatives"]

[FBIS Translated Text] Since the start of this year, the government has always tried to halt inflation by means of controlling currency supply and by restricting investments, but inflation has none the less shot up again in June, because the real causes of inflation had not been clearly realized.

We might call this type of currency inflation, which is not caused by excessive demand or stimulated by costs, but rather by reform, a "reform-type" inflation. It is an inflation that is not commonly seen in a developed market economy, nor generally in developing countries. It is caused by the peculiar operational mechanism of the Chinese economy during its period of "shifting tracks," it is therefore a peculiar phenomenon of the period of China's "shifting tracks" in its economic structure.

During the 15 years of reform, China's price structure has repeatedly undergone substantial reforms, which have all had commodity prices go up. Prior to 1988, currency supply had regularly exceeded the normal demand of the country's economic growth, and currency inflation had obviously been induced by demand for currency, in which there were submerged some elements of "reform-induced" inflation, although the latter was not easily distinguishable. In the last two years, increase in demand for currency began to decline below the economic growth rate computed at current prices, and it actually resulted in a situation in which supply was larger than total demand. Even under these conditions, we still had a very serious currency inflation, and this then revealed conspicuously that reform was the factor that induced the rise in commodity prices.

On accepting the new understanding of the causes for currency inflation, we have gained a rational explanation for the phenomenon of currency inflation at times when supply exceeds demand. Some macro-policies can eliminate the semblance of currency inflation being caused by excessive demand, and make a choice according to the state of quantitative surplus, and as a consequence evade the impasse in macroeconomic regulation and control.

In 1988, China's reform of its economic structure tried to overcome the difficulty of price reform by "gentle" increases, but before price reform had a chance of becoming effective, prices would first rise. The main reasons for that were that at that time demand for currency was truly excessive, while the structure of the people's consumption demand had not yet essentially changed, and people's income was to a large extent transformed into purchasing power in the market. The "reform-type" inflation that has occurred during the last two years is actually a continuation of the "price breakthrough" of 1988, in that it is now the final "breakthrough" in consumer goods prices by decontrolling prices for foodstuffs and services, thus signifying the end of this development. The magnitude of price rises for foodstuffs and services during the last two years was unprecedented in all the 15 years of reform, but commodity price increases had not at all been completely out of control, and nothing like the steep decline in savings deposits and the nationwide panic purchases of the 1988 "price breakthrough" had again occurred. On the contrary, the rate of people's savings deposits continued to rise, the amounts of deposited funds increased substantially, and the investment demand induced a rapid growth rate. This kind of a vigorous price reform which, on the one hand, occasioned no violent economic shocks and, on the other hand, maintained continuous rapid economic growth, cannot really be mentioned in the same breath as the situation that followed the 1984 and 1988 reforms. The present price reform moved China's economy one very large step forward on the road to market economy, and, as far as price reform is concerned, it is about the end of this development. All these

changes are of decisive significance in that they laid the foundation for China's socialist market economy.

Every reform, so also price reform, will always have some shock effect, and having kept down the shock of the present reform to today's limited extent had been not easy at all. We also must not take the "reform-induced" currency inflation as the main target for macroeconomic regulation and control, as this would pit the objectives of the reform against the objectives of development and thereby create contradictions in macroeconomic policies. The present contradiction is to be found mainly and concentratedly in the retrenchments imposed as anti-inflation measures, which must be blamed for the state of supply exceeding demand. Because of the rebounding inflation and these continued retrenchments, it is quite possible that the state of quantitative surpluses will be further aggravated and will even bring about a crisis. Even if commodity prices are stabilized by a more widely occurring full or part-time shutting down of production, that stability of commodity prices would matter little to staff and workers who would lose their incomes.

For the month of July this year, the growth rate of industrial output value had declined to 17.8 percent, while the growth rate of the related daily output value had already declined to 15.7 percent. As these growth rates developed, the growth rate by the end of the year could possibly decline to below 8 percent. If the industrial growth rate falls below 20 percent, one-fifth of the enterprises will have to close down, and if the growth rate falls below 10 percent, stoppages and semi-stoppages of production will reach 40 percent, or even come up to 50 percent. This could possibly be cause for serious social problems.

On the other hand, when food prices rose in June because of higher procurement prices for grain, the cost of living index for staff and workers in 35 large and medium-sized cities rose in June by 4.1 percent, and further in July by 6.6 percent. After July of last year, the government's macroeconomic regulation and control measures brought down commodity prices on average by 3 percent per month, resulting in a low point of inflation. Following last year's low, increases will appear this year, and commodity prices will hardly decline to lower than 20 percent in the coming months, or even hardly below 25 percent. In the second half of the year, the question whether to focus mainly on anti-inflation or on anti-depression will therefore become a sharp controversy, and in the face of this grim situation, a decision in the macroeconomic policy will have to come soon.

Having reached the conclusion that reform is the main cause for the currency inflation, macroeconomic policy has, in my opinion, the following alternatives:

1. "Currency inflation is in the final analysis a currency phenomenon." Although currency demand is presently not the cause of currency inflation, it is still a result of it and a precondition for its existence. Since last year and up to the present, if it were not for a continuous macroeconomic tight money policy,

reform-induced currency inflation would pile up on top of currency-demand-induced inflation, creating an even more serious currency inflation. As we promote price reform, we must definitely at the same time and unswervingly persist in the tight money policy. The intensity of financial regulation and control during the second half of the year must on the whole be maintained at the level of the first half of the year, with perhaps slight relaxations.

2. Above analysis makes it clear that there is no connection between "reform-type" inflation and the scale of investments. The present scale of investments is not too large, but rather too small. In the long view, China's rate of investments could still rise higher, following expected increases in the rate of savings deposits. Increasing investments will be a long-term prime topic in the future macroeconomic development. Especially at the present time, with its ever more intensified structural changes of the economy and the continuous decline in the growth rate of consumer demand, denying investment increases may completely suppress demand and finally force the economy into a depression. The major adjustment in the present macroeconomic policy must therefore be one toward increasing investments.
3. Up to the present, the entire society's stocks of commodities and materials, its energy resources, and foreign exchange have already all greatly increased, and this fact is providing an ample material basis for the continued high-speed growth of the national economy. Advent of a new phase of economic growth reveals to us prospects of continued long-term, high-speed economic growth. The government's dispositions for next year's economic growth rate must therefore still persist in aiming at high targets, above the high starting point already set in this year.
4. The propaganda line of the present macroeconomic policy is "constrict money supply, curb inflation." If we acknowledge the existence of "reform-type" inflation, we should change the slogan to "constrict money supply, deregulate prices," and in this sense explain to the people the reasons for the present currency inflation, and mobilize the masses to join the government in breaching this final barricade against price reform. On the precondition of a controlled currency supply and increased investments, we can still hope to be able to maintain a very high speed of economic growth, and can also hope for fairly high increases in the real income of the masses, and thus have a solid material basis to ward off currency inflation and to continue to actively pursue the reform. As far as the developing countries are concerned, economic growth is at all times more important than the level of their commodity prices. In comparing a state of a high economic growth rate with high commodity prices with a state of a low economic growth rate with low commodity prices, it is always the first alternative that should be preferred.

Article Analyzes Current Market Conditions

95CE0054A Beijing *JIAGE LILUN YU SHIJIAN*
[PRICE: THEORY AND PRACTICE] in Chinese
No 9, 20 Sep 94 pp 2-6

[Article by Gao Tiesheng (7559 6993 3932), Liu Wen (0491 2429), and Liu Xiaonan (0491 1420 0589): "The Current Market Is Certainly Not Soft, With Short-Term Sales Steady But Growing—An Overall Assessment and Analysis of Current Market Conditions"]

[FBIS Translated Text] How should we understand China's market conditions for the first half of 1994, and are we now experiencing a market slump? A correct analysis and assessment of these questions will affect our grasp of our macroeconomic regulation and control directions and dynamics. In light of certain differing views that have appeared most recently, and through a study in certain provinces and cities combined with a comparative analysis of the pertinent data, we hold that our market operations for the first half of 1994 were generally normal, with the problems that appeared at specific times, in some areas, and in certain categories not being representative. Our current market is in a state of stable growth, with our consumer goods market continuing to grow steadily brisker in the second half, and our commodities market also mostly stable.

I. The Key Features of Our Market Operations in the First Half of 1994

1. Individual incomes grew faster, with consumer goods markets stable but growing.

In the first half of 1994, our urban and rural individual incomes grew faster, with bank wages [as published] and other spending by individuals up another 37.7 percent on the heels of 36.7-percent growth in the first half of 1993. The per capita cost-of-living monthly income of city dwellers grew about 32 percent, while the per capita income of rural residents was up more than 30 percent. Corrected for inflation, this was growth of respectively 9.4 percent and about 10 percent, both higher than the growth rates for the first half of 1993. But market sales were steady but growing. For the first seven months of 1994, our consumer goods sales were 843.9 billion yuan, up 26.2 percent from the first half of 1993 and, corrected for inflation, up a real 5.2 percent. By month, their respective growth was 22 percent, 30.3 percent, 23.9 percent, 24.3 percent, 26.1 percent, 27.4 percent, and 29.9 percent and, corrected for inflation, 2.7 percent, 7.8 percent, 3.1 percent, 4 percent, 6.1 percent, 6.2 percent, and 7 percent. Excluding the Spring Festival factor in February, it is obvious that market sales grew monthly, with their growth for July clearly faster than for the first half. In our capital goods market, as investment demand and economic growth rates were curbed somewhat, commodity sales were steady. Domestic Trade Department data for the first half show that domestic sales were up 4.4 percent for 16 key commodities, such as rolled steel, cement, lumber, and coal.

While individual incomes have grown faster in 1994, consumer demand has been relatively stable, with steady sales growth on consumer goods markets. The major reasons for this are: 1. We have taken further macroeconomic regulation and control steps, achieving clear successes in areas, such as controlling our fixed assets investment, credit scope, money supply, and consumption fund growth, as well as stabilizing our exchange rate, which have improved our market climate. 2. As to our market operation pattern, after two consecutive years of sharp retail-market growth (for 1992 and 1993 up respectively from the previous year by 17.7 percent and 26.1 percent, or corrected for inflation up a real 11.4 percent and 11.6 percent), 1994 growth was mild, conforming to our general market sales trend. While our markets overheated in the first half of 1993, their growth fell back moderately in 1994 to a normal level, showing that our macroeconomic regulation and control since 1993 has been successful. 3. Our individual consumer mindset was quite stable, with the faster growth of cash incomes dampening the tendency to shop as a hedge against inflation. 4. Due to higher expectations about increased spending on other reform measures, such as housing, health care, social security, and education, savings have grown more, with purchasing power diversified but strong. 5. Too high market prices have certainly curbed the consumption of mid- and low-income individuals. 6. The consumption field has broadened, with the consumption structure changed, and consumer spending on noncommodities, such as services, up. On the other hand, consumption levels have seen a breakup of grades, with new consumption hotspots not yet formed, while demand for durable consumer goods is relatively stable.

2. Consumer goods market prices rose too much, rebounding in June.

In 1994, market prices have continued to climb from their high level in 1993, with our national retail commodity sales and individual consumer prices up respectively from the same period in 1993 by 20 percent and 22.4 percent. The key features of our market price rises are: 1. Prices are up overall in all categories, up most for food, clothing, fuel, agricultural capital goods, and services, where the rises were 17-29 percent. 2. While urban and rural prices rose essentially together, rural prices have risen slightly more than urban ones since April. 3. While overall price rises slowly receded from their high position once topping out, they have risen somewhat more again since June. Our retail commodity price index was up from the same months in 1993 by 19 percent and 20.9 percent for January and February 1994, after which it was down from the preceding month respectively by 0.4, 0.7, and 0.6 points for March, April, and May, only to rebound in June, when it was up 1.1 points from May, and rising 21.4 percent in July, up 1.4 points from June. 4. While consumer goods market prices rose, capital goods market price rises slowed, receding monthly to be down 2.6 percent by May 1994 from May 1993, and falling another 6.2 percent in June.

3. While market commodity sources were abundant, supplies were uneven among various markets, with structural conflicts still quite glaring.

The Domestic Trade Department ranking of the supply and demand of 726 commodities in the first half shows that 88.4 percent were either generally balanced as to supply and demand or in long supply, while only 11.6 percent were in short supply. As light industry continued to maintain a faster growth momentum, up 20.1 percent for the first half of 1994 from the first half of 1993, consumer goods market sources were abundant, with market sales brisk, and brand-name, superior, and new varieties, as well as summer commodities, such as air conditioners, selling briskly. But the conflict between steady market sales and high production growth increased, with certain poor quality but high priced and unmarketable products severely overstocked, and our industrial product sales rate down. The data show our industrial product sales rate for the first half at 92.5 percent, 1.8 points lower than for the first half of 1993. Farm and sideline products were in short supply, with a glaring conflict between supply and demand for ones, such as grain, cotton, edible oil, sugar, and pork, where prices rose more. Some agricultural capital goods were in quite short supply. While our capital goods were generally in long market supply, with public inventories up, nonferrous metals, such as copper and aluminum, were in short supply with rising prices.

4. Our rural market improved, with our urban-rural market gap shrinking.

As peasant income grew faster, rural market demand was clearly up. In the first half, our national consumer goods retail sales at the county level and below were 288.7 billion yuan, up 23.3 percent from the first half of 1993, for 7.4-point higher growth. In contrast to our urban consumer goods retail sales growth rate, the gap shrunk from 15 points for the first half of 1993 to 4 points for the first half of 1994. Since July, our rural market grew brisker, with consumer goods retail sales below the county level up 30.5 percent from the same period in 1993, to approach their urban growth. The major reason for this was that after the summer harvest, peasant income increased sharply.

5. While our eastern, central, and western consumer goods market sales all grew to varying degrees, the gap between our eastern and coastal zones and interior provinces remained quite evident.

For the first half of 1994 in contrast to the first half of 1993, our eastern, central, and western consumer goods retail sales were up respectively 27.6 percent, 21.5 percent, and 19.1 percent, for a growth gap of 8.5 points. Our retail commodity sales growth for the first seven months of 1994 was 40.6 percent for Zhejiang, 42.1 percent for Hainan, 30.1 percent for Guangdong, 31.4 percent for Fujian, and 27.2 percent for Jiangsu, all higher than the national average of 26.2 percent, with the gap between the highest growth in Hainan and the lowest

in Gansu being nearly 30 points. This large gap in consumer goods market growth was due mainly to factors, such as the gaps in economic development level and purchasing power. But beginning in June, the growth rate for central and western China accelerated, bringing some improvement to conditions in places, such as Ningxia, Gansu, and Qinghai, which had low growth in previous months. By July, central China has surpassed eastern China in growth rate, with the growth rates for eastern, central, and western China at respectively 30.7 percent, 31.7 percent, and 22.9 percent.

6. While Shanghai Municipality's consumer goods market had experienced a time of flat sales, there was good reason for it, with things returning to normal by June and July, to surpass the national growth average.

Shanghai's market conditions have been quite exceptional and unusual in 1994, with consumer goods retail sales growth below the national average. For the first seven months of 1994, Shanghai had retail consumer goods sales of 42.6 billion yuan, up 18.6 percent from the same period in 1993, but lower than the national average by nearly eight points and, corrected for inflation, real growth of about 2 percent, or around three points below the national average. The main reason for this was low growth in January and April when, corrected for inflation, real sales were down respectively 9.1 percent and 9.6 percent. Such conditions on Shanghai's market were created mainly by many incomparable exceptional factors. 1. In the first four months of 1993, large amounts of purchase bonds were issued, withdrawing from circulation about 600-800 million yuan. 2. The East Asian Games were held in Shanghai in 1993, with the large amount of items, such as stadium and gymnasium upgrading, equipment renewal, and training, bringing extra group, individual, and foreign consumption during this period of 600-800 million yuan. 3. At the end of 1993, due to mistakes in areas, such as applying the consumption tax, there was panic buying, with a scramble to buy some foods, nonstaple foods, expensive appliances, and gold jewelry, bringing advance purchasing power of about 600-800 million yuan, which affected 1994 sales of similar commodities, particularly January sales. These exceptional factors, excluding inter-related ones, actually affected about 1.2 billion yuan worth of sales in the first half of 1994. Moreover, these factors showed up mainly in March and April 1993, giving March and April 1993 retail sales a larger base, with growth up from the same months in 1992 of respectively 58.6 percent and 61.8 percent. So corrected for these exceptional factors, Shanghai's retail consumer goods growth for the first half of 1994 was over 3 percent (corrected for inflation), basically in line with the national average of 4.8 percent. In fact, since June, Shanghai's consumer goods market has become normal, with retail consumer goods growth for June and July of respectively 29.8 percent and 30.5 percent, higher than the national averages of 27.4 percent and 29.9 percent.

The Shanghai Municipal Planning Commission holds that Shanghai's market trends for the first half of 1994 were normal.

Generally, with further tightening of macroeconomic regulation and control and accelerated system reform, and based on rapid growth of market sales for two consecutive years, the Chinese market for the first half of 1994 maintained a stable growth momentum, with normal market operations, and a moderate growth rate, in which the market was neither soft or overheated. This contributed to our sustained, rapid, and sound economic growth.

The current glaring problems in our market operations are: 1. Market prices are rising too much, rebounding to further widen our society's income distribution gap, which is adding to social instability; 2. A certain conflict exists between the product mix and regional structure of key farm and sideline products; 3. Manufactured goods are increasingly overstocked. If this state of affairs continues, it will affect our normal production operations; 4. Commodity sales in our state-run and supply and marketing systems are declining, with poor efficiency and steadily shrinking market share, making it hard for these systems to play their dominant role.

II. An Analysis of Our Market Trends for the Second Half and Policy Suggestions

In light of our overall economic growth and the state's continued adoption of a macroeconomic regulation and control policy, our market will continue to maintain an order of basic balance between supply and demand, with market sales remaining steady but growing to gradually turn brisker. In light of our steady growth in market sales in the first half, and in consideration of our pattern of market sales in the second half generally not being lower than in the first half and the various factors that affect market sales, our preliminary forecast for the second half is that our retail consumer goods sales will grow slightly faster than in the first half, for annual growth of about 27 percent or, corrected for inflation, real growth of more than 7 percent. While we will have abundant sources of most manufactured consumer goods, with supply generally exceeding demand, supplies will remain tight for farm and sideline products, such as grain, cotton, edible oil, meat, sugar, and produce. Our capital goods market will continue to remain stable, with most commodity supply and demand remaining loose.

The major factors contributing to stable market growth in the second half are:

1. The state will continue to take appropriate macroeconomic regulation and control steps, controlling our investment scale, credit scope, money supply, and overall prices, which will help to improve our market climate.
2. Our economy will continue to grow at a rate higher than 10 percent which, in addition to appropriate

importing and utilization of inventories, will provide abundant goods sources for markets. Analysis of the ranking of the state of supply and demand for 634 key commodities in the second half by the Domestic Trade Department shows that 84.1 percent will be basically balanced as to supply and demand or in long supply, while only 15.9 percent will be in short supply.

3. Since our market climate has improved, with consumer mindset maturing and investment financing awareness up, noncommodity consumption will grow faster, with purchasing power further diversified, which will help to ease market pressure.

The key factors promoting market sales growth are:

1. Effective demand will increase further. It is predicted that our fixed assets investment scale will exceed plans, continuing its rapid growth rate, to spur increased consumer demand. As still unfulfilled wage reforms in government institutions will continue to take effect, with state enterprises and central and western China seeing improved industrial output and higher efficiency, urban incomes will continue to grow. The state has raised its purchasing prices for farm and sideline products, such as grain and cotton, ensuring purchasing funds to conscientiously lighten peasant burdens, which will help to raise peasant income.
2. The advance purchasing power due to various factors in 1993 will have less of an impact on our market in the second half, with the completion of treasury bond sales decreasing the diversion of purchasing power, which will help to increase impulse consumption and improve market sales.

As to market regulation and control in the second half, we need to pay attention to the following points:

1. We need to correctly analyze and assess our market conditions, keeping a good grasp of our macroeconomic regulation and control dynamics. The policy of tighter macroeconomic regulation and control begun by the center in the last half of 1993 differs sharply from the double-tight fiscal and monetary policy practiced during the 1989 improvement and rectification. The previous policy was one of brake-slammings and hard-landing, sharply lowering our economic growth, with our 1989 GNP growth rate at only 3.9 percent, and our national fixed assets growth rate at -11 percent. But the policy we have adopted since 1993 has been a macroeconomic regulation and control policy of stability with some tightening, in which we are focusing our energies on controlling too high price rises on one hand, while maintaining appropriately stable economic growth on the other, so that our GNP growth rate for the first half of 1994 was 11.6 percent, with our national fixed assets investment growth rate at 25.2 percent. Our national economy will continue to maintain a quite rapid growth rate in the second half, with projected GNP growth of more than 11 percent. Within this general setting, our market sales will not see a replay of their full-scale slump

of 1989. So we must not, due to flat market sales in particular regions, at specific times, or in isolated categories, ease up on our regulation and control dynamic too soon or too much. In the last half, inflation will remain a glaring conflict in our economic activities, so that we will need to continue to make controlling price rises our key macroeconomic regulation and control mission, meaning that we generally must continue not to ease our macroeconomic regulation and control dynamic. We need to continue to strictly control our investment scale, credit scope, and money supply, tightening our macroeconomic control of consumption funds, and intensifying our price management, oversight, and inspection, in an effort to control the extent of price rises. As our current consumer mindset is quite stable, we should keep our bank interest rates relatively steady. Meanwhile, faced with problems, such as severe overstocking of finished goods and shortages of enterprise working capital, we need to pay adequate attention, appropriately increasing our working capital loans to efficient enterprises that make marketable products, to increase effective market supply and prevent economic stagflation.

2. We need to reinforce our agricultural production, taking conscientious steps to increase peasant income. The above analysis shows that our market growth in the second half will depend largely on increased rural purchasing power, with consumer goods market stability depending mainly on the state of production and supply of farm and sideline products. The key to our current agricultural production is to do a good job of fighting natural disasters, reducing losses as much as possible, in an effort to achieve increased or stable yields of autumn grain. We need to stabilize agricultural capital goods prices, lightening peasant burdens, and increasing peasant purchasing power. We need to continue to do a good job of the "food basket" project, emphasizing farm and sideline product purchasing, ensuring purchasing funds, and controlling more goods sources, to ensure market supplies.

3. We need to strengthen the state's capability to macroeconomically regulate and control markets, doing a good job of balancing supply and demand for key commodities. As to scarce commodities, such as grain, cotton, edible oil, and pork, in addition to doing a good job of purchasing, we need to maintain appropriate imports and reduce exports, keeping preferential policies unchanged. We need to set up as quickly as possible sound systems of key commodity reserves and risk reconciliation funds.

4. We need to be guided by market demand in rationally adjusting our product mix, stimulating commodity circulation, and opening up rural markets. Our consumer goods industry needs to become market-oriented, speeding up its structural adjustment, and improving its product quality and grade, in an effort to produce according to demand and raise its product sales rate. State commercial enterprises need to convert their operating forces as quickly as possible, taking active steps to

promote and increase sales. Since our rural market potential is enormous, the business sector needs to vigorously organize manufactured goods for the rural areas, to serve the peasants while increasing commodity sales. We need to urge industrial and commercial enterprises to clear out inventories and tap potentials, firmly cutting prices to deal with unmarketable, overstocked, and second-rate commodities, to invigorate funds.

5. We need to improve our market monitoring and projecting, paying close attention to market trends, to make timely and appropriate adjustments in our regulation and control dynamics in line with market changes. The many uncertain factors affecting our second-half market operations, such as the impact of flooding, waterlogging, and drought on our agricultural harvest, and international market changes for certain key capital goods, all need better analysis and monitoring, so that we can take corresponding countermeasures. As to market price volatility that might occur in some regions and categories, we also need to pay adequate attention. Once problems arise, we need to promptly do good regulation and control work, to keep them from touching off general volatility in our whole market.

Economy Continues Rapid Growth in August

95CE0024B Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese
No 37, 19 Sep 94 p 29

[Article by Zhong He (6945 4421): "August: Economic Growth Continues To Be Rapid"]

[FBIS Translated Text] China's economic growth accelerated further in August: industrial productions clearly were up, market sales rose by a large margin, cash outlays of banks increased sharply, consumer prices rose further, but investment, exports and finance continued to operate at normal levels.

Phenomena of "Rapid Increases in Four Areas"

1. Industrial productions increased rapidly. In August, industrial productions at the village and above-village levels increased 17.6 percent compared to August of 1993, and the daily average output value increased 2.3 percent over July. Productions of different types of industries all increased by different degrees over July; production increase of the collectively run industries was most notable, up 5.3 percentage points over July (village-run industries up by 8 percentage points); driven by market demands, light industries continued to increase production more rapidly than heavy industries, although some light industries more rapidly than others, and among heavy industries such as steel, cooper, aluminum, ferro-alloy, etc., productions slowed down further; the linkage of production to sales showed further improvement with 96.47 percent of the products produced in August sold, up 2.09 percentage points compared to August of 1993; but for the January-August period, the

rate of sales dropped by nearly 1 percentage point compared to the same period of last year.

2. Market sales rose by a large margin. The August total consumer retail sales increased 34 percent compared to August of 1993, and 4.1 percentage points over July, marking August the month with the most rapid sales increase this year. Aside from the fact that summer commodities such as air-conditioners and electric fans continued to sell briskly, sales rose sharply in August because of the excessive price rise which quickly led to an "overheated" market, although, if adjusted for price rise, sales for August rose only 8.5 percent in real terms, which, nevertheless, reflects steady increase overall.

3. Cash outlays of banks increased sharply. Under pressure from all quarters for investment capital, bank cash outlays increased by more than 50 percent in August, an increase of some 20 percentage points over the average of the previous seven months; in terms of the amount of currency in circulation, measured by the narrower gauge (M1) [currency in circulation plus demand deposits] and the broader gauge (M2) [M1 plus saving deposits], the rates of increase were clearly faster than the previous several months; cash reserves of enterprises also increased quite rapidly with the August total increasing 58.7 percent compared to August of 1993; the cumulative January-August total cash reserves held by enterprises was 246.3 billion yuan (ditto) compared to the same period of 1993.

4. Already high market prices continued to rise. Since the beginning of 1994, commodity prices which have remained at a high level rose further in August. The consumer price index of 35 medium and large cities in China increased 27.1 percent compared to August of 1993, and month-to-month increases reached as high as 38 percent. Viewed by category, the price rise was driven by the much higher prices of related products such as grain, oil, meat and eggs when they came on the market; compared to July, food prices increased 2.6 percent, meat and poultry and their products 9.6 percent, eggs of all kinds 8.6 percent, and fresh vegetables 22.5 percent, but the rates of price increase of other foodstuff were relatively lower. In geographic terms, areas with month-to-month [price] increases of more than 6 percent include seven cities: Beijing, Tianjin, Shijiazhuang, Shenyang, Jinan, Qingdao and Wuhan. The reason August prices shot up from their high level was very much related to excess demands for investment capital, increased wage-related expenditures, structural adjustments of prices and the lack of effective implementation of macroeconomic regulations and control, although influences of the above-mentioned factors are also part of a long-term trend; and finally August price changes were perhaps most directly induced by the great losses of agricultural sideline products, grain and vegetables from the frequent dry spells and floodings over large areas, which led also to increased production costs and supply shortages.

Investment, Foreign Capital Input and Finance Maintained Status Quo of Past Several Months

1. Fixed asset investments continued to rise rather rapidly. In August, state-owned entities held registered fixed asset investments of 78.1 billion yuan, an increase of 34.9 percent compared to August of 1993. Competitive fever in various localities to invest in businesses and launch new projects remained high, and new projects launched in August totalled 3,579 nationwide, of which 81.7 percent were sponsored locally or regionally. Among the new projects, 7,177 were launched in the two months of July-August, accounting for 33.2 percent of all new projects launched in the eight months of 1994. From January to August, the cumulative total of registered investments was 492.2 billion yuan, an increase of 44 percent compared to the same period of 1993; of this amount, registered investments in infrastructure projects totalled 273.4 billion yuan, an increase of 45.1 percent, and registered investments in renovation or restructuring projects totalled 112.7 billion yuan, an increase of 37.9 percent.

2. Outlook of exports continued to be favorable. According to customs statistics, August exports totalled \$10.21 billion, up 33.7 percent compared to August of 1993; imports totalled \$10.04 billion, up 14.6 percent, with exports exceeding imports by \$175 million. From January to August, the cumulative value of exports was \$68.95 billion, up 31.6 percent compared to the same period of 1993; imports totalled \$68.85 billion, up 18.5 percent.

3. Fiscal operations remain basically normal. Fiscal receipts in August this year (excluding the debts factor) increased 16.6 percent compared to August of 1993, and fiscal expenditures increased 26.9 percent compared to August of last year. With year-end in sight, various categories of expenditures will increase seasonally, and fiscal receipts and expenditures will likely be strained in the next months. From January to August, the total domestic fiscal receipts increased 21.4 percent compared to August of 1993, and the total of fiscal expenditures increased 25.7 percent.

In terms of economic operations in the last months of this year, the crux [of how they will turn out] depends on effective implementation of macroeconomic regulations and control. On the one hand, it is necessary to hold a tight rein of fiscal and monetary policies, exercise investment and administrative management, and control excessive increases of various wage-related expenditures at the source, and effectively carry out policy measures aimed at controlling excessive price rise. On the other hand, it is also necessary to explore all possible ways to effectively manage the second stage of the fall crops and the supply of "bags of rice" and "basket of vegetables." To ensure continued, rapid and healthy economic growth, it is necessary to tackle both aspects concurrently.

Provincial

Governor on Hunan's Economy, Opening Up

95CE0016A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese
No 35, 5 Sep 94, p 12

[Article by Li Ge (2621 2047): "Governor Chen Banggui Talks About the Development and Opening of Hunan"]

[FBIS Translated Text] On the morning of August 15, Hunan Provincial Governor Cheng Banggui met with members of a delegation of Hong Kong journalists visiting Hunan. Governor Chen answered questions from the reporters on current issues in Hunan's socio-economic development.

[Reporter] What are the most recent changes in Hunan's economic development?

[Chen] Economic development in recent years in Hunan has been particularly prominent in the areas of village and township enterprises, individual privately operated communications, transportation, postal and telecommunications, tourism and other tertiary industry, foreign investment enterprises, and high-tech industry. The production realized last year by village and township, hamlet, and individual private enterprises was 82 billion yuan (renminbi, as below). The entire province earned 31 million yuan in tourism. During the last two to three years 2,499 new companies of the three types of enterprises involving foreign investment have been registered. 1,360 companies were registered in 1993 alone.

From January through July this year over 500 companies were registered. The advantages of the province in science and technology are strengthening daily, forming a group of new high tech industries and top notch products. The transformation to production and use of Yuanda air conditioning, Yinhe instruments and computers, color kinescopes, and small programmable telephones, as well as bioengineering and new materials have all reached or are ahead of advanced world levels. Currently, this is a transitional moment for the entire province. At the same time that the publicly owned system is developed, we must encourage, lead, and support other economic elements and a diverse industrial structure to develop and undergo further adjustment simultaneously.

[Reporter] How have you transformed the environment to attract foreign investment?

[Chen] Hunan has invested considerable financial resources, material resources and human resources into basic infrastructure during the past years, but these still lag behind the economic growth. The entire province from the top to the bottom is currently focusing efforts on the building of four aspects of basic infrastructure: water conservancy, roads, electric power, and communications. The emphasis is on completing three water conservancy construction projects on the Xiang River,

four on other rivers and one on the Dongting Lake while at the same time developing long-range plans. Electric power has constricted economic development in Hunan to a certain extent. Currently, small, medium and large hydropower and thermal power stations are scattered throughout the province. Large power plants currently under construction include the 1,820 MW Wuqiangxi Power Plant, the 25,000 MW Yueyang Huaneng Power Plant Phase Two, four 1,200 MW power plants at Shimen, the 1,200 MW Xiangtan Power Plant, as well as the Wangcheng Power Plant and the Leiyang Power Plant. It is predicted that as of the year 2000, the province will have an installed capacity of 10,000 MW and will reach the national average level of electricity usage, thus basically resolving the issue of power for the whole province.

Highways are the focus of transportation construction - the No. 107 National Roadway going North and South, the "Number One Gateway to the Province" from Huanghua to Xiangtan, to the North getting a jump on the construction of a highway from Changsha to Linxiang, to the South increasing the progress on the highway from Leiyang to Yizhang, to the West hastening the completion of National Road 319 connecting Yiyang to Changde. The railway from Changsha to Shimen will also be completed.

[Reporter] How will you reinvigorate the medium and large state-owned enterprises?

[Chen] Our approach is to get a grasp on all three levels and conduct reform, reorganization and transformation. First, enterprises with good conditions will institute combined management, with clear distinctions between ownership and operating rights, to make the transition gradually to the modernized enterprise system and gradually become leaders in production, leaders in currency earnings, and leaders in new high technology. Changsha is one of 16 pilot cities in the country. There are 100 pilot enterprises this year, with ten being the primary focus. Secondly, production systems at small, scattered, or inferior enterprises will be worked on. The best, largest, and highest technology ones will be selected to develop along the path of group enterprises. At the same time, we will strive to save some enterprises. Those which cannot be supported will have to go bankrupt, while we find appropriate means to resolve issues of social guarantee mechanisms. We must implement structural adjustments between two extremes, strengthen management, get a grip on the two extremes, and push the middle forward.

[Reporter] What are the current key construction projects?

[Chen] The key construction projects - one is taking good care of agriculture, two is doing a good job of making up deficits and increasing surpluses in enterprises. We must get a grasp on the development and use of labor resources, set up an orderly labor market network, and do a good job of exporting labor. We must adjust the

agricultural system, expand the area planted in cash crops in the hilly areas, and accelerate the comprehensive treatment of the Dongting Lake. The way to increase enterprise surpluses and make up deficits is to get a grasp on products and markets and transform our linkage with foreign investments. We must raise the technical content of our enterprise products and increase their export earnings capacity.

[Reporter] What is the situation that you face now?

[Chen] Hunan needs to attract a large quantity of foreign investment for construction. Before the year 2000, Hunan will need 100 billion yuan invested in hydrology, power, and roads. The estimate is that in addition to the 40 billion total investment by the whole province, Hunan will need an addition 20 to 30 percent investment from the national government. We will provide 20 percent of the funding and attract foreign investment for 30 to 40 percent. In the area of controlling commodity prices and inflation, we plan to keep a grip on four aspects - the market basket, the rice bag, the fertilizer bag, and the medicine bottle. We will develop production, strengthen adjustment and control and guarantee effective supplies.

[Reporter] How will Hunan use its advantageous location next to Guangdong in its economic development?

[Chen] Hunan and Guangdong are mutually dependent and linked closely together. Hunan is behind the lines of the coastal provinces but in the front line of the interior. The rapid development of the coast has provided an advantageous moment of opportunity for the interior. At the same time that we urge the continued liberation of thinking and new ideas in the interior, we have strengthened the sense of urgency and responsibility in the interior. The interior has provided rich resources and room for expansion for the coastal areas. The coast has provided a vast market for the interior. Practice has proven that "restrict" results in both sides losing, but "release" results in both sides benefiting. When two provinces cooperate, the future prospects for mutual assistance and mutual benefit are unlimited.

Finance, Banking

PBC Official on Turning Foreign Debts to Investment

95CE0044A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 9, 20 Sep 94 pp 60-63

[Article by Wang Yuzhen (3769 3768 3791), Administrative Cadre Training College, People's Bank of China: "The Shareholding System and the Capitalization of Foreign Debts"]

[FBIS Translated Text]

I.

By means of issuing shares, joint-stock enterprises may raise long-term capital, which will then appear as self-owned capital, while capitalization of external debts can

lighten China's burden of foreign indebtedness and can convert foreign loans into internal investments. By an organic integration of the shareholding system with foreign debt capitalization, both of the mentioned objectives could be achieved simultaneously. Why is that so?

In our discussion we shall start out from the fundamental meaning of the shareholding system and of foreign debt capitalization. The term shareholding system refers to a system of enterprise organization and business management which uses the form of joint-stock companies, which raises capital through the issue of shares, and which regulates the distribution of social resources. The most direct economic functions of the shareholding system are capital formation and rational disposition of capital.

Capitalization of external debts is also called conversion of foreign loans into stocks, conversion of indebtedness, and discounting and discounting for cash of loans. It refers to negotiations between the debtor country and the creditor bank to transform part of the loans owed by the debtor country into bonds, to introduce these into the international money market, and then to sell this part of the bonds with a certain discount off their face value. Financially strong enterprises, banks, financial groups, and private citizens of some countries, on having bought these bonds, pass them on to the central bank of the debtor country as payment in that country's currency; investors thus use this capital for local investments in the debtor country. According to international usage, capitalization of foreign loans generally has the foreign investors buy securities—mostly shares—derived from the conversion of foreign loans and guaranteed by the government of the country concerned. Through the capitalization of the foreign loan, the debtor country transforms the foreign indebtedness into shares of enterprises in its country, shares which are then held by the investors.

Judging by the fundamental nature of the shareholding system and the capitalization of foreign debts, allowing capitalization of foreign loans to penetrate into China's actual practice of the shareholding system is theoretically feasible and also of certain economic advantages. The reasons are:

First, the economic function of the shareholding system is completely compatible with the purposes of the capitalization of foreign debts. Even though China's initiation of the shareholding system distinctly relates to enterprise property rights and has the ultimate purpose of transforming the mechanism of enterprise business operations, the shareholding system has also two most important and very direct economic functions, namely capital formation and the rational guidance of the flow of capital funds. On the other hand, capitalization of external debts can transform debts owed by a certain country to foreign parties into domestic investments in the debtor country, thus lightening its foreign indebtedness and increasing operating funds of its enterprises.

We may say that both, the shareholding system and foreign debt capitalization, agree on that point, namely the ability to raise capital and increasing capital funds for enterprises.

Second, foreign debt capitalization opens up a new channel and new form for capital formation by enterprises. Up to the present, Chinese enterprises raised capital through a great variety of channels and in many different forms. However, under the present conditions, when enterprises suffer from an extreme shortage of funds, raising funds for enterprises by means of capitalization of foreign loans would indeed be a very good thing, as far as the state is concerned and as far as the enterprises are concerned. It would also open a new channel for capital formation by enterprises and would provide them with a new form for raising capital. This would be particularly welcome—and why, then, should it not be carried out—for those enterprises that yield good economic returns, that have great developmental potential, that are very capable of earning more foreign exchange, but that unfortunately suffer from a shortage of funds for necessary developments. If they were to raise capital by capitalization of external debts, it would on the one hand increase their operating capital, and on the other hand lighten the state's burden of foreign indebtedness. Furthermore, if capitalization of external debts were used to transform foreign indebtedness into shares of Chinese joint-stock enterprises, shares to be held by foreign investors, these shares would have the same advantages as B shares and H shares issued in RMB, but would also have the ability of lightening the state's burden of foreign indebtedness, an ability which the B shares and H shares do not have.

Third, it would shift a part of the domestic capital risks to abroad. According to investigations, in quite a number of joint-venture enterprises the actual investment by the foreign party is very much less than the registered capital. The shortfall in capital will have to be made up by domestic capital, which the foreign party will then borrow, enjoying the advantage of low loan interest rates. This will aggravate the domestic fund stringency and also shift the capital risks to some extent to the domestic side. If capitalization of the external debt will have the effect of getting the foreign investor to hold shares in the company in question, it would also mean that at the same time that the foreign party will enjoy all benefits from the joint venture, the foreign party will also bear the risks. Capital risks will thus be dispersed to some extent, and some part of it shifted to abroad.

Capitalization of external loans is one of the methods that quite a few countries use to overcome their external debt crises. In 1988, Brazil capitalized \$3 billion of its external debt and rescheduled \$6.13 billion of its external debt. In 1993, Brazil converted \$23 billion of its external debt through this type of a conversion mechanism, to risk investment. In this item alone, Brazil was able to reduce \$5 billion in interest payments. Although China is presently not in any crisis about repayment of

external debts, it has arrived at a climax in matters of external debt repayments, and it will become absolutely necessary to have capitalization of external debts penetrate the process of promoting the shareholding system, to increase the operating capital of enterprises, and to reduce the burden of foreign indebtedness.

First, China has by now become a large debtor nation. Up to 1993, the balance of China's external debt had reached \$83.578 billion, making China 17th among debtor nations. Even though China's external debt is far below that of some critically indebted countries, the matter of lightening the burden of foreign indebtedness is just the same an important problem that must not be regarded lightly, particularly in proper consideration of China's strength in foreign trade, of its ability to earn foreign exchange through exports, and of its external solvency.

Second, China's international reserves are limited. China's foreign exchange reserves started in July 1993 to reverse the downward trend and rose from \$18.995 billion to \$21.199 billion by the end of 1993. Even adding to it gold and other foreign exchange assets raises the reserves to merely around \$3 billion, but considering their unstable nature and the need for immediate availability of funds for external payments, the foreign exchange reserves will still only be \$21.199 billion. According to international usage, a country's international reserves should at least be sufficient to pay that country's three months' import requirements. Computed on the basis of China's 1993 imports of \$103.95 billion, China's exchange reserve should not be less than \$25 billion, 987.5 million. This shows that China's foreign exchange reserve is \$4 billion, 788.5 million below what international usage would require. To ensure the continued healthy development of China's national economy, imports are essential, but to maintain China's very high international financial credit standing and prestige, the limited foreign exchange reserve is mainly not to be used to repay foreign debts, but must rather by all means be used to increase China's foreign exchange reserve. Under the set conditions of foreign exchange revenue from exports, the reduction of the burden of foreign indebtedness through capitalization of foreign debts, looking at it from another viewpoint, can indeed achieve the objective of increasing China's foreign exchange reserve.

Third, China has already incurred a large trade deficit. In 1993, the total value of China's imports and exports was \$19.572 billion; exports accounted for \$91.77 billion, and imports for \$103.95 billion, resulting in a foreign trade deficit of \$12.18 billion, which is the largest trade deficit in all these years.

Fourth, China has entered a peak-period of its obligations to pay back some of its foreign debts. According to forecasts of the State Administration of Exchange Control as to principal and interest to be paid in the early 1990's for long-term external debts, as such had been

owed at the end of 1990, (the forecast does not take into consideration static forecasts of thereafter newly borrowed external debts), repayments of principal and interest would have to be: \$4.745 billion in 1991, \$5.538 billion in 1992, \$4.54 billion in 1993, \$3.861 billion in 1994, \$3.798 billion in 1995. In the two years, 1994 and 1995, a total of \$7.659 billion of principal and interest will have to be repaid. Together with the foreign trade deficit of \$12.18 billion, the total comes to \$19.839 billion. In other words, the pressure on China in the form of repayments of external debts during these two years is indeed very heavy.

For all the above reasons we may well say that allowing capitalization of foreign debts to penetrate the process of promoting the shareholding system in China is in fact of practical significance:

First, capitalization of external debts allows payment of external obligations in one's own currency, thus saving foreign exchange.

Second, effective integration of foreign debt capitalization with promotion of the shareholding system converts some external debts into shares of Chinese joint-stock companies, thereby becoming the joint-stock companies' long-term capital as self-owned capital. This shift must not only be regarded as a quantitative shift, but must also be regarded as a considerable uplift, qualitatively, because:

1) an external debt becomes an internal investment; 2) the long-term "possession costs" of this converted capital fund is lower than the long-term "user cost" of enterprise bonds and long-term credits; 3) it can lighten pressure of credit demand to a considerable extent. If the \$3.861 billion external debt, principal and interest, to be repaid in 1994, would be capitalized, it would amount, at the current rate of exchange, to an infusion of 33.59 billion RMB credit capital into the enterprises.

Third, conversion of external debts into internal investments would bring economic benefits. This is so because through foreign debt capitalization the foreign creditor would become shareholder in the domestic joint-stock company, and as such would be concerned about the rate of profit of his investment, and as a consequence would bring to bear his advanced technology and managerial experience, in order to raise the profitability of the enterprise.

Fourth, capitalization of external debts will not only lighten the burden of foreign indebtedness and save foreign exchange, but will also have the additional effect of having the limited amounts of foreign exchange ensure all necessary imports, thereby ensuring normal operation of the national economy.

II.

How, then, are we to have capitalization of external debts penetrate China's process of promoting the shareholding system? The following are the concrete measures to accomplish this:

First, centralized and unified control and coordination must be exercised by a special administrative organization, because this task is very much involved with foreign relations, involves a broad area of interests, is beset with great difficulties, and requires for its achievement an organization of highly specialized and knowledgeable talents.

Second, determining the specific form of capitalization of external debts according to the condition of China's external indebtedness. Although China presently is burdened with a comparatively heavy load of external debts, it is not in a critical condition as to the repayment of its external debts, so that capitalization of external debts has to be undertaken according to the actual conditions of China's foreign indebtedness. Methods, therefore, have to differ between China's capitalization of external debts and the ways adopted by countries that are actually in crisis situations as to their foreign indebtedness, and that means that such capitalization need not involve any discounting, but may be conducted by converting the full amounts involved. This method would be easy for creditor banks to accept, and China's joint-stock companies would thereby also gain more long-term capital to work with. Later, depending on China's economic strength and the increase or decline of its external indebtedness, the amount of foreign debt capitalization should at certain times be continuously adjusted, or the discounted proportion of foreign debt conversions to bonds be raised or reduced.

Third, the procedure to be adopted in the capitalization of external debts. Within a certain period of time, the amount of external debt to be capitalized must be determined by the relevant administrative department according to macroeconomic need, and it may only thereafter be put into effect at the level of the specific joint-stock enterprises.

Fourth, selection of joint-stock enterprises for purposes of foreign debt capitalization. Selection of joint-stock enterprises for purposes of capitalization of their external debts must primarily consider two aspects: one is that the enterprise must have taken on a considerable amount of external indebtedness, and a second consideration is that the enterprise must have good developmental potential and good ability to earn foreign exchange through exports. Capitalization of the external debts of this kind of enterprises can indeed lighten the state's burden of external indebtedness and also raise the economic returns of the enterprises concerned, as well as increase foreign exchange revenue. Enterprises that ought to be selected are therefore: joint-venture and nonjoint-venture joint-stock enterprises, and also enterprises not on the shareholding system, if all of them are economically successful. The external debts which these three types of enterprises will have taken on to considerable amounts will then, through the capitalization of such external debts, be converted into operating capital as the self-owned capital of the enterprises concerned. If some of these three types of enterprises have taken on a

very heavy load of foreign debts while they are, on the other hand, not suited for capitalization of such debts, the relevant administrative department may transfer their external debts to other enterprises that have no external debts but that show good economic returns and good capability to earn foreign exchange through exports. In this way the foreign indebtedness is removed from one type of enterprises and capital added to the latter type of enterprises, and the objective of promoting exports and increasing foreign exchange earnings will be achieved.

Fifth, the problem of deciding on the category of shares to which the capitalized external debts shall be converted. Because it will be foreign investors who will buy the shares derived from the capitalization of external debts, it should be determined that the shares derived from the capitalization of foreign debts be specially provided for investors from Hong Kong, Macao, Taiwan, or any other foreign country, namely special foreign currency denominated bonds converted to RMB shares—the B shares and H shares. Foreign investors would then be able to use foreign currency bonds as payment for B shares and H shares. The relevant administrative authorities will then again convert the foreign currency bonds into equivalent RMB to transmit the investments to the enterprises concerned. In this way the foreign investors will be facilitated, and the Chinese joint-stock companies will be encouraged to enter the international stock market.

Sixth, selection of the currencies for capitalization of external debts. To avoid the risk of increasing the external obligations due to exchange rate fluctuations, capitalization should be effected as much as possible of debts in such currencies that tend to rapidly fluctuate upward.

Seventh, the problem of maturity dates of foreign debts to be capitalized. The first to be capitalized should be foreign debts that are near to maturity or that are short-term debts. This would avoid the difficulty of having large amounts of foreign debts becoming due for repayment within a short time, and this would also make it possibly to convert short-term foreign debts into long-term internal investments.

Eighth, the problem of selecting the kinds of debts to be capitalized. The proportion of debts that are owed to other than international financial institutions and that are not government loans should be increased as much as possible in the intended capitalization, because of the preferential and long-term conditions enjoyed in the case of international financial institutions and government loans. Increasing in the capitalization the proportion of debts owed to foreign commercial banks and private financial institutions will not only optimize the maturity structure of foreign debts, but also further lighten the burden of foreign debt repayments.

III.

In the capitalization of foreign debts there are not only advantages but also disadvantages. It is most necessary

to strengthen control, and attention must be paid to resolve the following problems:

First, controlling for a certain time the volume of foreign debt capitalization. Although capitalization of foreign debts can lighten the burden of foreign indebtedness and increase working capital of joint-stock enterprises, it can also to some extent increase the domestic money supply. Excessive capitalization of foreign debts over a certain period of time can induce and aggravate domestic currency inflation.

Second, the negotiable securities derived from the capitalization of foreign debts must predominantly be shares. In a general sense, foreign debt capitalization is conversion of foreign indebtedness to domestic investment, i.e. to bonds or shares which the foreign investor will buy after the said conversion. However, there is a difference between the two: the former, the bonds, converts the foreign debt into a domestic debt, where there is still the problem of repaying the capital on maturity and furthermore the risk of foreign exchange fluctuations when repayment is required in foreign currency. The latter, the shares, convert the foreign debt into a long-term investment in a joint-stock enterprise. We must therefore convert the capitalized foreign debt mainly into a share investment by the foreign investor in a domestic joint-stock enterprise.

Third, rational guidance of the flow of capital funds derived from foreign debt capitalization. Practice has proven that the flow of capital funds affects the industrial structure of a country. To cope with the present situation in China—a dual economic structure, composed of traditional and modernized structures of production—adjustment and optimization of the industrial structure must do away with the obstruction of economic growth brought about in the “basic industries” and “bottleneck industries.” On the other hand, the increasing trend toward integration and internationalization of the world economy demands of the Chinese industrial structure that it be gradually raised to a high-grade, advanced level, i.e. it demands development of high and new technology industries. Both these two sides relate to the problem of having a good foundation and potential for sustained and stable development of China's economy. On the other hand, rational and optimal industrial structure is determined by the rational state of the investment structure, which means rational guidance of the flow of capital funds. Rational guidance of the flow of capital derived from foreign debt capitalization amounts to optimizing China's industrial structure at a new level. According to above-mentioned computation, the total amount from capitalization of foreign debts, capital and interest, due for repayment in 1994 would be 33.5 billion RMB, and that amount could certainly have a powerful impact on the optimization of China's industrial structure. In view of this fact, and on the understanding that funds derived from foreign debt capitalization will be directed to productive sectors and economically successful sectors, the investments should

mainly be channeled to joint-stock enterprises in the following sectors: 1) communications, power resources, primary materials; 2) high and new technology industries; 3) export-oriented and import-substituting sectors.

Fourth, no capitalization should in principle be carried out for debts owed by enterprises related to national security, national defense, and highly sophisticated technologies, enterprises mining rare metals of strategic significance, and financial and information undertakings of a strong monopolistic character.

To sum up, allowing foreign debt capitalization to penetrate the domestic process of promoting the shareholding system is not only theoretically feasible but also operationally possible. There also have occurred some new changes since the 1980's in the area of international finance which have provided excellent opportunity for this kind of transformation.

First, there has been a strong trend in international financial circles toward converting assets into negotiable securities. This refers to a process of financing in which the various financial institutions compact their loans and claimable assets that are of poor liquidity, and, after adding guarantees and improving credit ratings, sell them to investors in the form of negotiable securities in the international money market. Capitalization of foreign debts is precisely the right method that will fit this new developmental trend.

Second, foreign commercial banks have recently entered the securities market. On 20 September 1990, the U.S. Federal Reserve Commission announced that it will permit one of the largest American banks, J. P. Morgan, to sell corporation bonds and shares. As a result, the restrictions formulated in 1933 in the Glass-Seagall Act, prohibiting commercial banks from dealing in securities, have been eliminated.

Third, many countries have relaxed restrictions prohibiting the citizens of their own country to invest in foreign shares. As from 26 January 1990, the Japanese Government allowed foreigners to directly engage in securities trading in Japan. The South Korean minister of finance announced, early in 1994, on behalf of the South Korean Government that South Korea intends to further relax its system of investment controls, allowing South Korean citizens to invest in foreign shares.

Fourth, there is increasing interest among foreign investors in the Asia-Pacific and Chinese securities markets. The American securities house of Morgan Stanley announced on 8 February 1994 that it will increase its portfolio of Asia-Pacific shares. Its holdings of Hong Kong, Malaysia, and Singapore shares account for 15 percent of its portfolio of shares from all over the world, and it has reduced its holdings of European shares from 31.5 to 24.5 percent. On 26 September 1993, the world's largest securities dealer, the Mellon Securities Group Inc. of the United States, opened a representative office in Shanghai. Sometime thereafter, the Morgan Stanley

Group Inc. of the United States and the Nomura Securities Co. of Japan visited and inspected Shenzhen on separate occasions on their inspection tours, when the said Morgan Stanley group set up an investment-type company in Shenzhen. Because of China's political stability and the steady, rapid, and healthy development of China's economy, foreign investors are very pleased with China's investment climate and the development and prospects of its securities market. Therefore, effective integration of foreign debt capitalization and promotion of the shareholding system in China are to be welcomed, as these endeavors will attain several objectives at the same time. It is a matter that must be fully explored theoretically and tried out in actual practice. Favorable conditions for implementation should be actively created, and implementation organized as soon as possible, as this undertaking will undoubtedly have a considerable positive impact on lightening China's burden of foreign indebtedness and as it will promote the further development of the national economy.

Coordination Between Fiscal, Monetary Policies

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[Article by Zheng Chuanfeng (6774 0278 6912): "On Coordinating a Fiscal Policy of Economic Growth With Monetary Policy"]

[FBIS Translated Text] Coordination between fiscal and monetary policies is aimed at macroeconomic goals for a given period, with most countries with developed market economies taking economic growth, price stability, full employment, and a balance of international payments as their macroeconomic policy objectives. But in China, as our national economy is still not very externally oriented, with unemployment also hard to become our key macroeconomic-regulation decision-making consideration in the short term, the immediate goals of China's macroeconomic policy regulation can only be economic growth and stable prices. Obviously, economic growth and price stability are certainly not completely compatible, with quite a lot of conflict still existing between them. In other words, our macroeconomic regulation goals can only take the two [economic growth and price stability] as primary and secondary options, with it impossible for them both to be simultaneously of top priority. So how to rank economic growth and price stability has become an issue that we must resolve first to coordinate our fiscal and monetary policies.

I. Fiscal and Monetary Policy Coordination Goal Options

As to China's economic development strategy, the Chinese economy is in a takeoff period of transition from traditional to modern growth, so that development of our socialist productive forces must be our primary macroeconomic policy goal. This is because as long as

our economy is undeveloped and our living standards are low, there is basically no sense in talking about the superiority of socialism. Of course, the superiority of socialism means certainly not that we do not want price stability, but rather only that price stability should not be China's primary macroeconomic policy goal. This is because the prerequisites for making prices our primary macroeconomic goal are that prices should be both the most authoritative and the most succinct index with which to distinguish macroeconomic conditions, while our current price situation is quite grim, at a point where it just has to be brought under control. Obviously, these two prerequisites are certainly not fully extant. This is because the factors that touch off price rises are diverse, such as excessive demand growth being likely to cause inflation, and too slow supply growth or an imbalance between the supply and demand structures also likely to cause price rises, as well as the impact of the transmission of international factors which, while our domestic economy at this time is normal, can still cause inflation to occur. Moreover, the market economy reform that China is now pursuing causes price rises created by price reform to often be confused with both demand-pull and cost-push inflation. So as price volatility cannot be the grounds for distinguishing China's macroeconomic situation, prices also obviously cannot be China's primary macroeconomic policy goal. And it is only when runaway inflation appears in our economy that stable prices become our primary macroeconomic goal. So taking guaranteed economic growth as China's primary macroeconomic policy goal means that when price stability clashes with economic growth, the general rule of thumb is that price stability must be subordinated to economic growth, and it is only when inflation threatens economic and social stability that economic growth should be subordinated to price stability.

This in fact reflects our stance in dealing with inflation. As inflation is an economic and social monetary phenomenon, with it being in fact impractical to thoroughly eliminate it, we can only take certain actions to control its extent. While we might stabilize prices through great efforts, that would not necessarily achieve our goal of economic growth. This is because as to the general method of controlling prices, controlling price rises means strictly controlling the growth rate of overall public demand. But as China's economic growth forces have been converted from supply control to demand push, a too severe tightening of demand would simultaneously impair the growth rate of effective supply. Such a tight policy would have two effects, one being that curbing of demand would have the impact of directly forcing prices down, and the other that the policy application would impair the growth of effective supply, which would result in a new supply shortage, leaving the hidden danger of new price rises. As to our immediate situation, the economic, social, and political problems that would be caused by severe recession and stagnation would be no less than the consequences of severe inflation. If unemployment grew too large, with not only the

real but also the nominal incomes of most people falling, the resulting political problems would put great pressure on government. While inflation undeniably contributes to rational economic growth and steadily rising living standards, inflation is merely a full condition for economic growth, not a prerequisite. Renouncing economic growth in the interests of monetary stability would mean in fact losing sight of our macroeconomic regulation and control goal. So such a macroeconomic policy would not have much real value.

While some might use the relations between the economic and monetary policy objectives of certain Western nations, such as Japan, to show that a country that pursues monetary stability can also achieve rapid economic growth, this is after all an exception, certainly not representative of a policy trend. Moreover, as the factors that touch off inflation accumulate, inflation can still explode after a time. While Japan created an economic-growth miracle for the capitalist world in the postwar period from 1955 to 1973, Japanese consumer prices were certainly not completely stable every year during that period, with corresponding growth of about 5 percent, even approaching 9 percent for several years, and runaway inflation starting in 1973. Similarly, a lower inflation rate does not necessarily mean higher economic growth. For instance, while the U.S. adopted a tight policy to curb inflation in the early 1980s, forcing down its money supply growth rate, the too low money supply growth rate tightened the money and credit supply, causing ever larger government fiscal deficits, with the government's large-scale bond sales quickly raising the prime bank interest rate from 1979's average of 12.7 percent to 18.8 percent by 1981. This resulted in price rises dropping from 1980's 12.5 percent to 4.7 percent by 1982, while investment and production shrunk sharply, real GNP growth dropped nearly to 2 percent, unemployment grew to 10.6 percent, and the U.S. was reduced from the world's greatest creditor nation to its largest debtor nation. China has similarly learned a lesson in this area, when our pursuit of a policy of absolute price stability resulted in the stagnation of Chinese economic development for decades.

Of course, premised on general price stability, nothing could be better than rapid growth of the national economy. But in light of China's macroeconomic realities, with overall economic conflicts coexisting with structural problems and rapid growth coexisting with inflation, we have no other choice, with only steady but rapid economic growth able to create solid material grounds for price stability, and increased effective supply being the grounds for positive monetary stability. So when exploring the coordination of China's fiscal policy of economic growth with our monetary policy, the macroeconomic setting for coordination is rational economic growth, with the primary goal pursued in coordinating fiscal and monetary policy also being the growth of our national economy. Meanwhile, we are paying simultaneous attention to economic stability, to achieve

maximum economic growth with lower inflation. These are the basic grounds for our choice of macroeconomic policy.

II. The Division of Labor for Fiscal and Monetary Policies as to Regulation Goals

Once we have determined the practical goals for which fiscal and monetary policies play a joint role, the specific ways of coordinating fiscal and monetary policies include mainly two levels of thinking: 1) determining the dominant and subordinate relations between fiscal and monetary policies; 2) setting the division of labor for fiscal and monetary policies in adjusting macroeconomic goals. Part of the key to determining the dominant and subordinate relations between fiscal and monetary policies in macroeconomic regulation and control hinges on the relative intensity of their respective roles in forming overall public demand. Generally speaking, the stronger policy, or the one that has the most direct and intense impact in expanding or shrinking overall public demand, is the dominant macroeconomic regulation policy, and vice versa. It needs emphasized that the intensity of the impact of fiscal and monetary policies in forming overall public demand is certainly not a constant. While it often may appear that from a general perspective, a certain policy should play the decisive role in overall public demand, at given times or in particular stages that particular policy occupies a supplementary or secondary position. This means that when determining the dominant and subordinate relations between fiscal and monetary policies, we also need to consider the particular relations between overall public supply and demand and structural conflicts, as well as analyzing the intensity of the respective impacts of these two policies on overall public supply and demand and structural conflicts to make a timely choice.

While the immediate goals of a joint role for fiscal and monetary policies are China's economic growth and stability, the actual respective regulation priorities and directions of the two policies do differ. So in particular operations, we still need to set up a general division of labor as to macroeconomic regulation and control goals.

In our socialist market economy, our fiscal macroeconomic regulation and control priorities and goals are mainly as follows:

1. To regulate and control the economic structure to balance overall public supply and demand. This means emphasizing the public function of [state] finance, as well as withdrawing from particular enterprise production operations and investment activities, and shifting our focus to investment in basic industry and infrastructures. In China's course of economic development, structural conflicts have always existed, with basic-sector supply shortages always being the key limiting factors in our economic stability and rapid growth. Particularly since 1992, once the Chinese economy had entered a new round of rapid growth, the limitations of such economic-structure "bottlenecks" have grown ever more severe. A) Agriculture was the first to be affected, with its weakness in our rapid economic growth becoming quite evident. In 1992, the added value of agriculture grew only 3.7 percent, to form a sharp contrast with our 12.8-percent GDP growth of that year. And in 1993, this state of affairs certainly did not improve, with our 1993 agricultural added-value growth at only 4 percent, while our GDP grew 13.4 percent. It is thus obvious that our agricultural growth was very uncoordinated with our overall economic growth. B) The lag in basic industry and infrastructure development also become quite glaring. In 1993, our industrial added-value growth rate reached a high of 21.1 percent, while our overall energy output growth rate was only 2.2 percent, our power generation growth rate was only 8.8 percent, and our freight turnover growth rate was only 4.1 percent, putting the elasticity coefficient between our industrial added-value growth rate and the latter three growth rates respectively at only 0.1, 0.4, and 0.2. But in the industrialization process of ordinary developing countries, the leading development coefficient of forerunner industries, such as communications and transportation, and posts and telecommunications, is between 0.1 and 0.8, showing that China is obviously still quite lagging in our development of these sectors. While many factors were involved in creating such an economic structural imbalance, the most important one is that our national government did not invest enough in these public industries that should be leading our growth. Table 1 provides data in this area.

Table 1. Industrial Investment by Funding Source (Unit: %)

		Agriculture	Communications	Energy Industries	Raw Materials Industries	Gross Domestic Fixed Assets Investment
State-Budgeted Investment	1986	44.8	32.9	38.9	16.9	14.5
	1990	39.4	18.4	11.7	6.2	8.7
	Difference	-5.4	-14.5	-27.2	-10.7	-5.8
Domestic Loans	1986	13.6	23.4	14.9	30.1	21.1
	1990	8.8	12.3	20.9	38.3	19.6
	Difference	-4.8	-11.1	+6.0	+8.2	-1.5
Foreign Investment	1986	5.0	3.7	9.9	12.8	4.4
	1990	6.2	6.7	10.5	12.2	6.3
	Difference	+1.2	+3.0	+0.6	-0.6	+1.9
Self-Financed and Other	1986	36.6	39.9	36.3	40.2	60.0
	1990	45.6	62.6	56.9	43.2	65.5
	Difference	+9.0	+22.7	+20.6	+3.0	+5.5

Data source: Sorted data from *Basic Industry Construction Fundraising*, published by the Business Management Publishing House, 1993, p 213.

Table 1 shows that the state-finance-budgeted investment percentage for all industries fell yearly, while the share of self-financing and other forms of investment by the industrial sector grew ever larger. As this raised basic-sector financing costs, while relatively lowering capital profit rates, it cancelled out some of the profits brought by higher product prices in certain basic industrial sectors in recent years, thus leaving basic-sector development with a lack of profit incentives. Of course, while there was a sharp relation between the lower percentage of state-finance investment and China's overall capital shortage, an analysis of China's gross national savings rate shows that this was not necessarily so. China's national savings rate averaged roughly 30 percent, far higher than the international average. So it is even more accurate to say that the cause of the declining percentage of investment in China's basic sector was related to China's capital-structure flaw, or that we lacked an effective profit-balance mechanism to guide our high savings rate toward investment in basic sectors. Of course, as it is very hard to achieve such balance by relying on the "invisible hand" alone, the government needs to fully perform its functional role in our economic structure. In China, state finance needs to make use of direct and indirect distribution to amass and disperse resources in a planned way, to increase investment in basic industries and infrastructures, as well as using policy tools, such as wages, prices, taxes, and interest, to guide social funds to flow toward industries and sectors that are in urgent need of national development, to ensure that the relations between accumulation and consumption are suited to the development of our productive forces, consumer demand, and national government organs, and to guarantee the overall coordinated development of our society and economy. 2) To regulate and control the economic interests of all parties. This

means mainly using the fiscal management system and tax leverage, such as taxes and subsidies, to reconcile profit relations, such as between the state and enterprises, the Center and localities, all regions, and the state and individuals, to standardize socialist profit relations, and fully stimulate the initiative of all parties. 3) To regulate and control income distribution, to achieve a unity of social justice and efficiency. This is conducted mainly in the form of tax means, such as taxes and welfare subsidies.

The regulation and control priority of the central bank's monetary policy is to achieve monetary stability premised on ensuring economic growth, or mainly to regulate and control our economy as a whole. At present, we particularly need to prevent the occurrence of obvious inflation that is so damaging to economic growth, maintaining a high degree of vigilance toward the many factors that touch off inflation. This involves the status and role of the central bank. In other words, for the central bank's monetary policy to be effective, the central bank must have relative independence per se. Such independence includes: Autonomy in deciding and formulating monetary policy, to more effectively achieve the goal of monetary stability; determining the indirect financing relations between the central bank and state finance, to keep state finance from overdrawing on or borrowing from (long-term) the central bank to make up fiscal deficits, with the central bank using mainly the indirect financing form of buying and selling national treasury bonds through open market operations to help state finance tide over its difficulties; stipulating that the central bank may not provide loans or guarantees to the government management sector at any level, and distinguishing policy finance from commercial finance, to sever the relations between the central bank supply of

basic currency and policy loans; providing that the central bank and its branches are not subject to interference by other government sectors or local governments in the performance of their duties. In addition, the central bank needs to fully use its policy tools and means to regulate the supply and demand of social funds, to make the economic structure more rational.

III. Fiscal and Monetary Policy Coordination Direction Options

Once we have clarified the respective macroeconomic regulation and control goal priorities for fiscal and monetary policies, we need to use their respective macroeconomic regulation and control goals as benchmarks for division-of-labor cooperation and mutual coordination, to form the most effective policy unity. This actually reflects our choice of regulation directions for fiscal and monetary policies. While a "double-loose" or "double-tight" fiscal and monetary policy would have the greatest force, that would not be suited to China's economic realities, leaving our only policy-mix option the "some-loose and some-tight" model. And as our policy-role base point is the pursuit of economic growth and stability, our choice of the particular form of such a policy mix could also only be the "neutral fiscal policy and moderately loose monetary policy" model. A neutral fiscal policy means doing all possible to pursue a policy of a rough balance between spending and receipts, or to have lower fiscal deficits, and then to do all possible to make them up in the form of borrowing, instead of that of bank overdrafts. Such a neutral fiscal policy is actually a tight policy as far as China's state of overall public demand expansion is concerned, having a great impact in cutting back individual consumer demand. But meanwhile, as to our economic structural imbalance, a neutral fiscal policy is also a relatively loose policy, as the right use of deficit means by state finance to increase priority-construction spending can achieve the goals of optimizing our industrial structure and rectifying our structural imbalance.

But to genuinely optimize our national economic structure, we will still have to work along both lines. 1) State finance needs to improve the public benefits of its investments, by slanting its investments toward priority industries and investment fields, and by reflecting the state's industrial-policy intentions in areas, such as taxes, prices, and enterprise profit payments to the state. This will mean speeding up our pace of tax reform, to basically reverse the abnormal situation of state revenue making up too low a ratio of national income and central revenue making up too low a ratio of all revenue. On modern market economy terms, while economically developed nations spend on economic construction a ratio of government investment to the society's overall investment of generally 30-40 percent, in China's 1992 overall fixed assets investment, the ratio of government-budgeted investment was only 7.4 percent, which state of low government investment must not continue. Of course, increasing the budgeted government investment

ratio alone will not be enough, particularly for a developing country like China with still very little financial resources, where bringing the state's credit functions and roles into full play would seem to be more immediate. This is because fiscal investment does not necessarily mean completely free [uncompensated] appropriation. International experience proves that combining reputable fiscal financing with efficient credit investment is the best way to bring the government role in basic-sector financing into full play. This means setting up a government investment financing system. Overseas experience in developing policy-type investment financing bodies shows that the more successful form is to develop a policy bank. In China, in addition to this, we also need to combine an improved policy investment system with adjusted fiscal relations with planning commissions and banks, by making government policy financing the link to harmonize fiscal relations with planning commissions and banks. Planning commissions need to separate themselves from assigning investments, setting quotas, approving projects, and being involved in particular operating investment projects, with a state development bank controlled directly by state finance and indirectly by the central bank in charge of the specific operation of government investment activity. 2) We need to sharply raise the technical standards and use efficiency of China's huge current assets inventory. In China's current approximately 2.2-trillion-yuan state-owned fixed assets inventory, about one-third is idle or underutilized, with fixed assets incremental investment steadily growing at an ever faster pace, while a very low utilization rate of our assets inventory is the result of China's long-sustained traditional economic development pattern of mostly extensive expanded reproduction. So premised on a fixed gross investment for a given period of time, our macroeconomic investment-structure direction needs to be first controlling our inventory [qualitative] utilization and then considering incremental [additional, quantitative] investment, first considering tapping our existing production-capacity potentials, and then discussing the principle of increased investment in new production capacity. It will be only a combination of qualitative adjustment with quantitative investment that will enable us to eventually optimize our economic structure.

Premised on a neutral fiscal policy, adopting a moderately loose monetary policy means mainly that such a policy should help to speed up production growth, while creating a relaxed economic climate for reform. This is because if we pursued a tight monetary policy at this time, while the Chinese economy is still not very monetarized and our banking credit scope is tight, this would mean a cutback in enterprise outside funds (bank working capital [loans] and fixed funds). And as enterprises have very little of their own funds and are unable to engage in free fundraising activities, a tight monetary policy would naturally confront an expanded enterprise production scale with great difficulties, with even simple reproduction unable to be maintained, which would

result in economic growth rates clearly falling, and our economic growth goals unrealized. So as it would obviously be very hard to ascertain how large of a money supply would actually be the most appropriate, it seems that a moderately loose monetary policy would be easier to operate. We are here using bank lending growth of 1.5 percent for each 1 percent increase in GVIAO [Gross Value of Agricultural Output] as the appropriate money supply growth rate. Our grounds for this are that China's historical empirical data show our economic growth monetary-demand coefficient to be roughly 0.7. As China's monetary policy energy-conduction waste is so great, in addition to strengthening the central bank's policy means of adjustment, we also need to better optimize our monetary policy's system conduction, including accelerating the commercialization of special banks, and intensifying China's money market [reform], to pave the way for the use of open market operations by the central bank. This will actually also be a key step in pushing state finance to make up its fiscal deficits on markets, as it will be only a well developed national treasury bond market that will make it possible for state finance to raise funds in a timely fashion on such a market to make up its fiscal deficits. Otherwise, fiscal deficits can be made up only through shifting them to bank overdrafts or borrowing.

Tax Losses on Foreign-Invested Enterprises 'Serious'

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30 Oct 94 p 1

[Article by reporter Wang Yinghui (3769 6601 2547):
"Tax Losses on Foreign-Invested Enterprises Serious—
Tax Audit of Foreign Enterprises Is of Great Urgency"]

[FBIS Translated Text] We learn from the state tax authorities that tax losses on foreign-invested enterprises are quite serious right now. Some foreign-invested enterprises have caused serious tax losses to the state by reporting less revenue, inflating production costs and expenses and using the form of paying higher price for the raw material purchased and of selling finished products at a lower price in order to conceal their profits and evade taxes. They have caused serious tax losses to the state, undermined the principle of fair taxation and disrupted the normal economic order of the state. A survey conducted by the tax authorities last year showed that about 40 percent of the foreign-invested enterprises evaded taxes.

Since the implementation of the reform and opening-up program, China had approved 219,000 foreign-invested enterprises, of which 150,000 enterprises had registered themselves with the tax authorities. Between 1980 and 1993, China's tax revenue from foreign-invested enterprises reached 52 billion yuan with a relatively high rate of growth each year. In 1993 alone, tax revenue from foreign-invested enterprises exceeded 20 billion yuan. This tax revenue has become an important component

part of China's total revenue. Foreign-invested enterprises have also become a strength not to be neglected in developing China's economy and they have made considerable contribution to our national construction.

However, the problem created by foreign-invested enterprises in fulfilling their tax-paying duty also merits attention.

According to Su Xiaolu, a responsible person of the Auditing Section of the Department of Foreign Businesses under the General Administration of Customs, the basic situation in tax evasion among foreign-invested enterprises is that they have evaded taxes in many areas and their illicit activities made the enterprises suffer considerable losses.

A sampling survey conducted by the state tax authorities over 30,000 foreign-invested enterprises last year discovered that about 40 percent of the enterprises evaded taxes. A year-end audit conducted in Fujian Province over 2,278 foreign-invested enterprises showed that these enterprises made revenue understatements totaling 189 million yuan and post fictitious production costs amounting to 188 million yuan for which they had to pay 32.348 million yuan as penalty tax. In a final settlement with enterprises for income tax payments during 1993, a city in the special economic zone investigated 5,335 foreign-invested enterprises. It discovered that these enterprises made an understatement of 157 million yuan in revenue and posted fictitious production costs totaling 1.127 billion yuan for which they had to pay 96.39 million yuan of tax. It had helped these enterprises reduce their losses by 190 million yuan.

In the course of checking and handling tax evasion cases in various localities, we have found that foreign-invested mainly adopt the following measures in evading taxes. In purchasing goods and materials, they often report higher cost in purchasing materials and goods and higher procurement expenses. In production and business operation, they often report extra fictitious expenses and inflate cost of goods. In sales, they often conceal a part of revenue or report less revenue, and add more marketing cost and selling expenses. In reporting profits, they often report less taxable revenue but more fictitious expenses. Moreover, the foreign investors of some foreign-funded enterprises often make use of their power to buy and sell raw material and equipment to artificially bring down the export price, while raising the import price so as to transfer profits, make the enterprises suffer losses and evade taxes.

An expert concerned believes that there are many reasons which make many foreign-invested enterprises to evade taxes. Specifically speaking, the reasons are as follows:

—Revenue offices involving foreign investors are not well-organized. Particularly not much attention is given to the establishment of the auditing department. Auditors must be highly qualified, since they mainly

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deal with trans-national taxpayers. Right now, the number of highly qualified auditors is far from being enough.

- Taxpayers are less conscious of their duty to pay taxes. They often compare themselves with other taxpayers and trust to luck. Some of them even do not realize that they have to pay taxes for their business income. Nor do they know how to pay taxes. Thus, they often try to evade taxes. Meanwhile, policies are different in various localities throughout the country in collecting taxes. Tax laws are enforced strictly in some localities, while they are administered flexibly in other areas. As a result, taxpayers often compare with one another and resent paying taxes according to law. Still others trust to luck. They often try one thousand and one ways to evade taxes in order to make more money.
- Laws are not strictly enforced, and punishments are not severe enough. Some people set the introduction of foreign investment against tax payment according to law. Some local government departments have interfered too much in this connection.
- The measures adopted by the tax authorities for tax collection are backward. Various departments have not joined their efforts in carrying out joint administration, and they are slow in gathering information. As a result, many tax revenue sources run away when tax authorities try to collect taxes from foreign investors.
- Tax collectors lack experience in fighting tax evasion.
- The existing laws and regulations for auditing foreign investors on taxation are less perfect.

Probe Views Fiscal Department's Credit Management
95CE0078A Shanghai CAIJING YANJIU [THE
STUDY OF FINANCE AND ECONOMICS] in Chinese
No 9, 3 Sep 94 pp 19-22

[Article by Li Jiegang (2621 2638 0474): "An Initial Probe Into Fiscal Investment Finance"]

[FBIS Translated Text] As "fiscal investment finance" is a recently much-mentioned term, which many academics are explaining and analyzing, this article is an attempt to systematically sum up the discussions in this area, as well as combining them with my own superficial knowledge, to form a more systematic theoretical framework.

I. The Concept and Implications of Fiscal Investment Finance

The idea of fiscal investment finance can be defined from the following aspects:

1. Who are the players engaged in fiscal investment finance?
2. What kind of economic activity is it?

3. What are the conspicuous features of such economic activity?

As the term fiscal investment finance suggests, the first defining term is "fiscal," showing that this is economic activity involving the field of [state] finance. Then as to the major term of "investment finance," this is an abbreviation of investment and financing, or at least includes substance in these two areas. As "investment" naturally means capital investment, and "financing" refers to capital financing and circulation, implying fundraising, the term fiscal investment finance when put together should refer to fiscal participation in fundraising and financing, as well as economic activity oriented toward a specific purpose in line with specified criteria. The players in this economic activity are governments (central and local), with the substance of the activity being "investment finance," or capital investment and financing, and the feature of the activity being that such capital circulation reflects a certain fiscal character, or is a financial credit activity of a fiscal nature. So the whole fiscal investment finance concept can be summed up as the raising and use of capital by fiscal means, or fiscal financial credit activity reflecting mainly government intentions.

To accurately grasp the implications of the fiscal investment finance concept, we can proceed from several areas.

1. Fiscal investment finance is fiscal financial activity reflecting government intentions, neither equating to ordinary fiscal credit or being entirely fiscal investment. This is because it should include neither public debt as fiscal credit used to make up fiscal deficits, or free [uncompensated] appropriation investment as fiscal investment, rather being [fiscal] spending aimed at physical capital formation.
2. Fiscal investment finance is fundraising based on government credit, with the operating capital in the form of contributed capital or financing.
3. While fiscal investment finance carries a certain banking flavor, it is essentially in the category of [state] finance, with its ultimate expression being the demands of fiscal functions.
4. Fiscal investment finance manifests ordinary banking credit features, with its own inherent operating and management demands.

II. The Ordinary Common Features of Fiscal Investment Finance

Fiscal investment finance activity began long ago. Due to differing social and economic systems, the pertinent fiscal investment finance systems of all countries also vary slightly. But they all contain certain common features, which are the basic terms for defining fiscal investment finance.

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1. *Fiscal investment finance is government activity, a supplement to state finance.* This is based on the following factors:

1. A large part of fiscal investment finance capital comes from funds in the category of [state] finance. Some are fiscal-budgeted construction funds transferred over, while others are funds in the category of fiscal-responsibility management per se. For instance, in Japanese fiscal investment finance, the industries, particularly the accounting, is fiscal-budget appropriations, with government-assumed bonds per se being under fiscal-responsibility management.

2. The capital investment of fiscal investment finance reflects government intentions, becoming a fiscal-budget supplement. A sizeable part of fiscal investment finance capital is used to buy national treasury and local bonds. For instance, when Japan first set up this system, the government stipulated that the capital could be used only to buy national treasury bonds. While this scope was later expanded somewhat, 70 percent of the capital was still being used to buy national treasury bonds by 1945. In 1986, Japanese fiscal investment finance purchases of national treasury bonds amounted to 500 billion yen, or one-quarter of all treasury bonds issued that year, playing a great role in supplementing the fiscal budget. Meanwhile, they also assumed a large part of local-bond purchases, with the major investments being in public facility and infrastructure construction.

3. The role of fiscal investment finance in supplementing state finance is also expressed in providing capital guarantees for the application of government policy. Fiscal investment finance provides funding safeguards mainly for industrial development, infrastructure construction, and promotion of socio-economic and overall economic stability, for which government ought to be responsible, to reflect government economic planning and policy objectives. As fiscal investment finance is characterized by capital abundance and regulation flexibility, being able to avoid the fiscal budget spending flaws of rigidity and adjustment time-lag, by applying timely reverse regulation to capricious changes in national economic development, to ensure steady and sustained economic growth, it is an indispensable supplement to the fiscal budget.

2. *Fiscal investment finance is investment and financing activity, a valuable supplement to private capital.* In our overall national investment system, while private capital always occupies a quite large share, private capital is ordinary banking capital with a sharp commercial orientation, favoring the pursuit of capital appreciation, and preferring only low-risk, high-return, and quick-result projects. So as investment in projects with long investment cycles, high risks, and poor economic efficiency but great public benefits become the responsibility of fiscal departments, fiscal investment finance is naturally duty-bound. This can lighten the pressure on ordinary financial institutions to make loans to sectors with poor operating efficiency, reducing their investment risk.

3. *A most crucial feature of fiscal investment finance is that it provides a unity of policy orientation and compensation in capital use.* Policy orientation refers to the use of fiscal investment finance capital being aimed mainly not at profitmaking, but rather at implementing pertinent government economic and social development policies, which is an essential point in which it differs from ordinary financial capital. Compensation means that fiscal investment finance capital is also used differently from uncompensated appropriations from fiscal investment, in that it has to recover its capital, as well as collecting a certain use fee. Generally speaking, while most capital with a policy orientation is invested in sectors, such as basic industries and public facilities, with features, such as low returns, high risks, and capital recovery difficulties, making it very hard for it to be unified with compensated capital use, fiscal investment finance, with its specific funding sources and use-management system, can better unify the two. This policy orientation refers specifically to conforming to national economic and industrial development policies, not to a completely fiscal investment policy, with the projects invested in creating a certain amount of economic efficiency, and having a certain repayment capability. This compensation also differs from ordinary banking credit compensation, with its use price necessarily far lower than that of financial capital. It needs clarified that fiscal investment finance, premised on ensuring the policy orientation of capital, has to use certain banking means of operation and management, being an organic unity on fiscal grounds. And this unity is divided into dominant and secondary.

4. *Fiscal investment finance has fundraising features, such as specific sources, low cost, and fund-acquisition stability.* Fiscal investment finance has certain specific funding sources. Quite a bit of its funds come from fiscal-budgeted transfers of construction funds, with some also being fiscal negotiation funds, being within the basic scope of fiscal distribution and redistribution, all of which sources are uncompensated or low-cost. Another part of its capital is financial capital that the government uses coercive means to obtain, which funds are amassed by the government through the administrative intervention means of coercion and monopoly, so that their fundraising costs per se are also quite low. Since such specific funding sources are not easy to change, the amount of funds to be obtained can be predicted, meaning that they are quite stable.

5. *All fiscal investment finance has its own special fund management system.* 1. Fiscal investment finance capital use has uniform rules and strict procedures. For instance, Japan draws up each year a "Fiscal Investment Finance Plan" which, based on the needs of all policy objectives, is coordinated with ordinary fiscal budget conditions, to set the allocated quotas for all uses. South Korea's granting of fiscal investment finance capital is subject to strict formalities all the way from start to finish.

A. Budgets drawn up by the Economic Planning Board go into effect only after consultation with fiscal departments and the Ministry of Finance and congressional budget deliberations.

B. Budget implementation demands presented by all official ministries and commissions are granted to fund users only after approval by the Economic Planning Board and the Ministry of Finance and financing by finance organs. 2. Special investment agencies are set up to professionally handle the use of fiscal investment finance funds. All countries do not commission ordinary financial institution agents, to keep policy capital from being mixed up with ordinary investment capital, and to ensure that fiscal investment finance funds are invested in policy-oriented projects with low charges. For instance, based on fund-use and use-form differences, Japan has set up three types of fiscal investment finance organs.

A. Central finance-type special accounting [agencies], which combine fiscal investment finance funds with central finance budget funds to use for all Central Government causes.

B. Government financial institutions, which loan funds to midsize and small enterprises, private enterprises, the trade sector, and consumers, to assist in the implementation of the government's industrial and social policies.

C. Groups engaged in the construction and management of public utilities and facilities, which spend fiscal investment finance funds to build Central Government public utilities and infrastructures.

3. Fiscal investment finance practices legal management. The whole process of fiscal investment finance, all the way from organizational installation, service scope, and operating form to capital oversight and recovery, is expressly provided for in law. For instance, the annual operating state of Japanese fiscal investment finance is included in budget drafts by the Treasury Department, and submitted to the legislature for oversight, with government financial institutions in particular under dual management by Treasury and responsible officials, and the service lives and interest rates of all loans expressly provided for in law.

III. The System Makeup of Fiscal Investment Finance

The fiscal investment finance system-makeup generally should include the three major parts of organizational structure, substance structure, and operating forces. As to organizational structure, it can be divided into the two levels of Central and local fiscal investment finance. As to the management organ setup, there are generally special management organs independent of government finance. The substance structure generally includes the

two areas of fund sources and fund uses. Operating forces include mainly certain rules and regulations for a series of operating processes, such as fund input, oversight, and recovery.

We will focus here on analyzing the substance structure of fiscal investment finance. First, let us look at fiscal investment finance fund sources. These can be generally divided into the three major parts of fiscal investment finance capital funds, capital fund appreciation, and [fiscal] finance. Capital funds refer mainly to fiscally appropriated funds when the investment finance system is first set up, as well as some investment capital planned in later fiscal budgets, being in the category of fiscal capital. Capital fund appreciation refers to the earnings from the use of fiscal investment finance funds, and the use fees paid by capital-use units. While these two parts make up quite a large share of the funds when the fiscal investment finance system is first set up, as the fiscal investment finance scale steadily expands, their share grows ever smaller, leaving the fund sources dependent mainly on fiscal finance. As for current international practice, the fiscal finance part is mainly the following items:

1. All types of insurance funds that the government uses administrative intervention to raise and finance;
2. All government-established funds transferred to fiscal investment finance;
3. Idle postal savings funds;
4. Government-secured bond funds, or government-borrowed funds converted to loans;
5. Fiscal investment finance special accounts, such as emergency funds financed from fiscal budgets, and monopoly income from government-monopolized goods;
6. Sales of government bonds.

Fiscal investment finance fund-use reflects the demands of policy-orientation and compensation. The general methods used by all countries are:

1. To use these funds to purchase national treasury bonds and local construction bonds;
2. To meet treasury fund shortages by regulating and controlling the national treasury bond market;
3. Loan-repayment expenditures;
4. Operating investment;
5. To support basic industries and public facilities, as well as production development of priority enterprises and spending on new product development; 6. To grant temporary turnover loans to enterprises and institutions.

IV. The General Functions and Roles of Fiscal Investment Finance

The general functions of fiscal investment finance are in two areas:

1. To fully reflect the fiscal function;
2. To reflect to a certain extent the principles of general financial credit. Its roles are brought into play mainly as follows:

1. It brings the guidance role of fiscal policy into full play. Fiscal investment finance is characterized sharply by policy-orientation and government action. Its capital orientation must conform to the state and government's economic policy and social development needs. It proceeds from realizing the macroeconomic, social, and long-range economic goals of the state and governments at all levels, working through the fiscal department, by using special investment finance means to amass socially idle funds, in a pooled effort to invest in basic industries and infrastructures at interest rates far lower than those of commercial banks, to ensure the unity and continuity of national economic strategy and fiscal policy, and thus bring the guidance role of fiscal policy into full play.

2. It improves the investment system, filling in gaps in fiscal investment and ordinary commercial banking investment, to improve the money-market system structure. Fiscal investment finance, while ensuring the policy orientation of funds, also operates and manages funds to a certain extent according to banking credit principles, to ensure fund investment security and turnover appreciation. The set of management methods that it uses for fundraising and use is similar to but different than that used by banks, also being essentially different from the uncompensated appropriation of fiscal funds, so being particularly suited to investment in the production of semi-public products.

Such semi-public products have certain public-product attributes, as well as certain private-product properties, in that they can be invested in by either state finance or private individuals and enterprises, either of which alone would be inappropriate. For instance, basic industries and infrastructures are of general importance to the whole society, while also creating a certain amount of economic efficiency, so having a repayment capability. So these sectors being completely dependent on fiscal investment would not be fully in line with spending limits, as such a large amount of financial resources are not available. But totally relying on these sectors to raise their own funds through commercial bank loans would also be impractical due to their high risk, long cycle, and low repayment capability, which particularly requires investment sectors in between state finance and banks, to provide these sectors and industries with low-interest and long-term lending support. As these investment sectors are policy banks and fiscal investment finance, the investment system must have the crucial component of fiscal investment finance.

3. It optimizes the disposition of resources and thus the economic structure. While a market economy is a resource-disposition one, the role of market forces is not omnipotent, not able to attend to all aspects, with there being some areas in which its resource disposition may not work or is ineffective. For instance, in the field of public products with economic-efficiency spillover, a market economy premised on economic efficiency is powerless in resource disposition. But as such fields must be developed, the government has to take policy steps to deploy resources to these fields. While fiscal investment is a crucial step, as stated above, limited fiscal resources mean that these fields cannot be assumed completely by state revenue. In such fields, fiscal investment finance that can bring fiscal functions into full play is bound to be turned to good account, with the large amount of funds raised through fiscal investment finance resolving the investment needs of these fields, to supplement market-disposition inadequacies, fully developing these fields where resource flow is lagging, to further optimize our economic and industrial structures.

4. Fiscal investment finance functions to reverse-adjust economic cyclical volatility, strengthening the government's macroeconomic regulation and control dynamic. Economic growth is subject to cyclical volatility. As the overall investment scale expands and contracts, economic growth is subject to cyclical volatility of sudden heating and sudden cooling, which has a very negative impact on the society and the economy. Easing such cyclical economic volatility requires drawing on coordination from fiscal finance. Fiscal investment finance, as a key component of fiscal policy, plays a full role in overall social and economic regulation and control, with its form of regulation and control being more suitable, flexible, and dynamic than that of state revenue per se.

When economic growth overheats, the government can concentrate more private capital and departmental funds in the fiscal investment finance system, thus correspondingly drawing away some bank funds, cutting back ordinary investment spending, and controlling investment expansion. At times of economic recession, the government can also quickly increase its share of fiscal investment finance spending, stimulating domestic effective demand, to spur economic recovery. For instance, when the Japanese economy experienced slow growth in the mid-1980's, to bring it out of recession, the Japanese Government quickly increased its fiscal investment finance supplement of 72.2 billion yen in 1986 to 1.1722 trillion yen for 1987. This step sharply stimulated an economic recovery.

In short, as fiscal investment finance fundraising and spending provide a reverse regulation for national economic growth, the government can draw on this regulatory role to strengthen its macroeconomic regulation and control dynamic.

Listing of Public Shares on Stock Markets Causes Problems

95CE0082A Chongqing GAIGE [REFORM] in Chinese
No 5, 20 Sep 94 pp 72-77

[Article by Wei Haitian (7614 3189 3944): "Public Share Circulation Problems and Other Matters"]

[FBIS Translated Text] China has scored brilliant achievements and accumulated rich experience in the course of nearly a decade of share system reform. This has been manifested primarily in the following ways: (1) Rapid increase in the number of listing companies. As of the end of June 1994, Shenzhen and Shanghai had nearly 280 listing companies listing shares totaling approximately 400 billion yuan in value, thereby easing the earlier problem of supply being unable to meet demand for shares. (2) Medium and small enterprise system reform pilot projects have developed into the successful listing abroad of exceptionally large concerns. On 6 June, Oriental Electrical Machinery formally listed on the Hong Kong exchange, and the first nine state-owned enterprises' share offerings were successfully listed in Hong Kong. (3) Listing corporations developed from the simple to diversified key, basic, and tertiary industries. (4) Share system reform spread from southeastern coastal areas to share listings in remote inland areas such as Xinjiang, Gansu, and Ningxia. The inauguration of securities trading points in Lhasa at the beginning of the year marks the formation of a nationwide unified securities market. (5) Securities markets have parted from their self-imposed isolation, markets and the macroeconomy becoming closely interrelated. The fall in share prices, which began in late February 1993, has continued to the present. Shares traded in Shenzhen, for example, fell from 368 points on 22 February 1993 to 117 points on 1 July 1994 in a 67.1 percent decline.

The 17 month-long process of share prices regressing toward investment value might be said to have effectively curbed the speculative trend and hit hard at market speculation, thereby laying the foundation for the stock market's future healthy development. However, unless the authorities concerned seize the present opportunity to clean up and straighten out lingering problems in the transformation of the country's securities markets and share system, the present situation and macroeconomic regulation and control efforts may all be wasted. Some securities market problems can be solved only through better laws and regulations, and their strict enforcement. Examples include controlling listing corporations' violations of the rules, and market rigging by secondary market institutions. Some problems are infrastructural. "T + O" and A and B share problems are an example. Even more problems are combinations of the two kinds. Of all the problems, it is public share problems that attract the most attention.

The shares of Chinese listing companies may be roughly divided into public shares made up of national shares and enterprise corporate shares, and individual shares

made up of shares held by staff members and workers in enterprises, and shares held by the public at large. There are no impediments to the circulation of individual shares, including the shares of staff members and workers in enterprises, which have also been traded on the secondary market during the past several years following listing. Public share circulation problems, however, stem from a lack of operating techniques, persons in charge, and operating experience. They have long been orphaned. Except for their symbolic value in showing the increased value of state-owned assets in annual reports, such shares have virtually no significance.

Public shares may not circulate in the securities markets, nor are they accorded the same treatment as individual shares. First of all, there is no way to increase the value of state-owned assets. Second, public shares cannot help readjust the industrial structure and optimize the allocation of resources. They cannot be marketed, the money obtained invested in basic industries and key industries in urgent need of development. Third, public shares cannot regulate the stock market or play a role similar to that of a stabilization fund. Public shares cannot be released into the markets to soak up idle capital or reduce the currency supply, nor can public shares be purchased at opportune times to increase the market money supply. A final problem relates to unequal rights in the distribution of dividends. In their year-end bonus shares and options distribution plans, many corporations distribute different amounts of public shares and individual shares. The distribution of public share options is also abandoned because there is no way to get money out of them.

Public shares currently account for slightly more than half the total value of the market. The problem is that unless this problem can be solved as soon as possible, as enterprises continue to list shares, thereby causing a gradual rise in the absolute value of public shares, the nature of the problem will become more serious. Thus, this problem assumes greater urgency.

1. The Public Share Percentage Issue

Much discussion has been devoted to the percentage of shares that listing companies hold. For a time, no less than 51 percent was recommended. However, as transformation of the share system intensifies, some people believe that there is no need to limit the percentage of listing companies' public share holdings, so long as the company remains the largest shareholder. In other words, if a listing company's share rights are very scattered, and it holds share rights to only 1 percent of public shares but is nevertheless the largest single shareholder, the role of public shares in the company can be assured.

We chose a Shenzhen listing company as an example to look at the actual percentage of public share holdings. As of 1 July 1994, the Shenzhen Stock Exchange listed 103 stocks. Public shares accounted for less than 50 percent of shareholdings for only 19 of them. Fifteen of these

were also Shenzhen stocks. This shows that the longer listings continue, the smaller the percentage of public shares; and the larger the number of local Shenzhen stocks, the smaller the percentage of public shares.

Reportedly, the government intends to divide stock companies into government holding companies and non-government holding companies on the basis of their importance. The state-owned shares of the government holding companies will be divided into 51 percent standard shareholdings and 25 percent minimum holdings. Enterprises themselves will decide whether state-owned shares exceeding the standard share holding percentage may circulate in the market. If state-owned shares in excess of the minimum holding percentage and below the standard holding percentage are to be transferred, approval of the government authorities concerned will be required.

This policy will have an extremely great impact on the percentage of public shares that listing companies hold. However, given the present circumstances, even though the percentage of public shares that some old line listing companies hold is not high, the fact that listing companies hold a substantial percentage of public shares will not change. In five listing companies, public shares account for more than 80 percent of original shares; in 20 listing companies, the amount is between 70 and 80 percent; in 30 the amount is between 60 and 70 percent; and in the remaining 29, the amount is between 50 and 60 percent. These figures show that the number of shares in circulation on the secondary market is really only a very small part of actual listed shares. Unless this problem of public shares illegally entering the secondary market is properly solved, substantial hidden dangers will linger in the future development of securities markets.

2. The Public Share Loss Problem

Although public shares should enter the secondary markets; nevertheless, the use of all sorts of illegal means to slip them into secondary markets before legal and uniform means for their entry have been found may be termed a loss of public shares. Four years ago, the writer analyzed and wrote a report about the public share loss problem of an old line listing company, the "Development Bank." Criticized by the authorities concerned for a decline in its public share percentage owing to losses of its public shares, the Development Bank resorted to the distribution of more options to some corporate units at the time of share option issuance as a means of reviving its public share percentage. This aroused the dissatisfaction of individual shareholders, and led to quite a bit of tumult in the shareholders meeting that year. Thus, the problem came to light. Figured in terms of market value at the time, the Development Bank lost 400 million yuan of public share value for the year! Four years have passed, but not only has this situation not been contained, but it has become worse and worse. Some statistics presented below show that listing companies' public share losses have become a universal problem.

In 1992, the Jintian Corporation held 4.741 million government shares and 14.755 million corporate shares. Its 1992 bonus and options plan called for the distribution of 8 shares for every 10 shares held. Thus, government shares should have increased to 8.534 million, but the actual number was only 5.534 million, a 3 million shortfall. Following the distribution of corporate stock bonus shares and options, corporate shares should have increased to 26.559 million, but the actual number was only 24.597 million, 1.962 million having disappeared. The two decreases added together produced a Jintian Corporation 1993 public share loss of 4.962 million shares.

In 1992, the Shenzhen Dasheng Corporation held 12,493,200 government shares, and 2,907 million corporate shares. After carrying out its bonus share and options distribution plan, government shares should have increased to 25,486,100, but the actual figure was only 14,279,900. Corporate shares should have increased to 5,930,300, but the actual figure was only 5,034,900, a total of 12,095,400 public shares having disappeared.

The situation in the Shenzhen Baoan Corporation was even clearer. That company's bonus share and share option plan called for the distribution of 3 shares for every 10 shares held. That year, it had 76.10 million government shares, so after issuing bonus shares, the number should have increased to 98.93 million shares, but the actual figure was 98,924,500, a 5,500 shortfall. Generally speaking, possibly because of the lack of money, share options were either abandoned or option rights were transferred. Since there was no reason not to take bonus shares, even a 5,500 share shortfall remains a puzzling question. In 1992, the same corporation had 78.42 million corporate shares. After issuing bonus shares, the number should have been 101.946 million, but the actual number of corporate shares held was only 69,794,200, the number following distribution of bonus shares being less than before the distribution of bonus shares. The figure for increase in the company's shares held by the public in that year should have increased by 66.637 million shares. This contrary figure provides us a clue.

The Development Bank figures available for examination show the ratio between its public shares and individual shares to be only 0.314:0.686. Former year losses of public shares through "directional quota sales of corporate shares," maintained the public share ratio at around 50 percent. After 4 years of "development," the Development Bank's public shares lost more than 10 percent of their total share capital. Thus, on the basis of the total share capital of the current 400 million shares, some several million shares are lost each year.

In addition, at the same time that the percentage of shares that some companies issued to the public at large should have increased greatly, their ratio to public shares decreased greatly. Examples are Hainan Energy, whose

shares issued to the public should have increased by 16,085,900, Hainan Chemical Fibers whose shares issued to the public should have increased by 19,058,500 shares, Hainan Zhujiang whose shares issued to the public should have increased by 5.98 million shares, and Sichuan Salt Chemical, whose shares issued to the public should have increased by 19.951 million. Actually, these are precisely the public share loss figures.

Our reason for concern about the loss of public shares is first, that it throws into confusion the transformation of the share system. It is bound to create tumult in the primary and secondary market order. In addition, it makes a mockery of the country's laws and regulations, thereby setting an exceedingly bad example. Third, since there are no trading laws and regulations in the public share loss process, a lot of insider trading is bound to occur. The methods used, the prices, and the times of sale of these public shares, and to whom they are sold creates extremely great damage to stock market administration and the "three fairnesses" principle.

Reportedly, because there was no specific property rights representative for the government shares in these public shares, the circumstances of the loss were not so serious, and the loss and transfer of corporate shares was virtually an open secret. Beginning in 1993, quite a few listing corporations converted state-owned shares into corporate shares. The most classic example occurred at the end of December 1993 when the Shenzhen Municipal Investment Management Corporation converted 58.5 million shares of state-owned bonus shares worth 406.5 million yuan that some listing companies held, transferring them by agreement to the Pingan Insurance Company. Then the investment management corporation turned around and subscribed the 406.5 million yuan for the purchase of 67.75 million shares of Pingan Insurance. No cash was involved in this transfer. Were it not that the Pingan Insurance Company was able to cash (lose) the listing corporation's shares, it is unlikely that the Pingan Insurance Company would have surrendered that much equity rights to a national assets control agency.

According to incomplete statistics, the conversion of government shares to corporate shares included the Zhenye Corporation's conversion of 13,253,300 state-owned shares to 350,000 corporate shares. In 1993, this corporation had zero government shares and the number of its corporate shares changed to 21,555,200. In 1992, the Anda Corporation had 12.87 million state-owned shares. In 1993, it had no state-owned shares, and its 2,556,400 corporate shares increased to 25,648,100. In 1992, Shenzhen Zhonghua had 47,695,300 state-owned shares. In 1993, it had no state-owned shares and its corporate shares increased from zero to 62,004,000, etc.

There is too great a gap between the state-owned shares and the corporate shares of the above corporations; therefore, it is easy to guess that similar situations are very numerous. Moreover, if one doubles the changes that have occurred over the years in the capital stock of

all corporations listed on the Shenzhen and Shanghai stock exchanges since they began listing, one can discern that the problems certainly go beyond those cited above.

It is worth noting that according to the laws and regulations of all jurisdictions, extant public shares positively may not circulate; hence, the illegal losses of the above corporations. However, views differ about the application of laws and regulations to that portion of public share increases resulting from bonus shares and share options. Provisions of "1992 Operating Methods for the Circulation of Listing Corporation Share Options and Bonus Shares," used by the Shenzhen Municipal Securities Control Office explicitly provide that following permission, public share bonus shares may be listed and traded 1/2 year after they have been obtained. In addition, directional corporate share options may be listed for trading at once. The "Circular Notice on Problems in Listing Companies Circulation of Distributed Shares in 1993," which was issued on 4 March by the Shenzhen Securities Control Office, again provided that 1993 public share distributions shares could be listed for circulation.

Reportedly, the Chinese Securities Supervisory Committee expressed a different view than the one in the 1994 Shenzhen Securities Control Office circular notice, but it did not express a view on the Shenzhen Securities Control Office's 1993 circular notice. The different views of the agencies in charge of securities muddle the public shares loss problem even more.

3. Public Securities Issue Price Problems

Some people believe that a corporation should get a return that is commensurate with the amount of its capital subscription rather than with the number of shares it has issued. They also feel that this is a principle that everyone should accept. Others believe that public shares are obtained at their face value or at a negotiated price, while individual shares are obtained at a premium issue price; thus, the return from the high cost, high risk individual shares is a privilege gained from their listing and circulation. Were this principle to gain credence, no share listing and circulation problems would exist.

These notions are rooted in history, and they also stem from a lack of clear understanding. Since the advent of reform and opening to the outside world, some foreign capitalist have put up no capital or little capital when setting up a foreign-owned enterprise, or they have put up over-priced machinery and equipment rather than money in making an investment. Consequently, in order to guard against a loss of the rights and interests of the Chinese member of joint ventures, the Chinese government has drawn up a series of policies and regulations. The ideas that have grown out of the enforcement of these policies and regulations are an enterprise's rights and interests determined on the basis of the amount of money invested.

Actually, when a shareholder subscribes to the shares of a company, he or she takes on responsibility for profits

and losses. When the company makes a profit, he or she enjoys a return based on the amount of his or her subscription. When the company loses money, he or she is responsible to the extent of his or her subscription. Inasmuch as China has not applied bankruptcy law for a long time, people have no conception of bearing responsibility for losses. On this basis, we say the return on a listing corporation's equity cannot be determined on the basis of the price paid at the time of share purchase.

As for obtaining public shares at the face value price at the time of issue or at a negotiated price, first of all, as old corporation stockholders, holders of public shares are entitled to preferential treatment. Many who have become old stockholders of listing corporation's public shares have also enjoyed preferential treatment from the corporation since corporations began listing in recent years. Second, purchase of corporate shares at a premium price is the way the market works. The issuing corporation does not practice deception about the transfer of public shares at face value. If an individual is willing to purchase corporate shares at the market price, that shows he deems that price a fair one, and that he expects to make a profit. Therefore, the logic of the claim that the "purchase of stock is not fair" under today's circumstances is not convincing.

The claim that "different stocks entail different costs" was in vogue for a time. The main reason for this was nothing more than finding a theoretical basis for preventing the listing and circulation of public shares through normal avenues, and to allow listing corporations to draw up unfair distribution plans when issuing bonuses. Of course, the reason was also related to corporations not going bankrupt and not requiring shareholders to bear responsibility for losses. If shareholders were ever required to bear the losses of a money-losing listing corporation, no one would suggest bearing responsibility for losses on the basis of the amount of money spent to purchase the shares.

4. Public Share Options Problems

The public share options problem provides another major channel through which public shares are lost. After many years of turning a blind eye, it was not until March and April 1994 that the National Assets Bureau issued both "Views on Controlling State-owned Property Rights in Share System Pilot Project Enterprises," and "Urgent Circular Notice on Listing Corporation National Share Distribution Matters," which had the effect of locking the barn after the horses had been stolen. However, if these regulations could not be resolutely enforced, and those who dared to violate the law prosecuted, they would exist in name only.

The "Views" said: When "the state lacks the resources to buy share options yet the percentage of state shares must not be allowed to decline, state shareholders should use suitable means to block share options... options for government shares must be transferred for remuneration. They may not be given up automatically without

prior approval." However, in 1994, quite a few listing corporations gave up their options on the pretext of their being government shares or corporate shares, or else they transferred options at a very low price.

In Guangzhou, Zhujiang assigned all 21,375,000 of its corporate bonus shares to individual shareholders, each one obtaining 5 shares for every 10 shares held.

In Hangzhou, Tianmu issued 2 bonus shares and 3 options for every 10 shares held, and individual shareholders could obtain a 10:10 share distribution for corporate share options.

Commercial outlet points issued 3 bonus shares and 3 options for every share held, and individual shareholders could obtain a share distribution for every 10 corporate share options.

Market understanding of high priced share options has increased nowadays. Corporations cannot use them to recompense shareholders, but they can exploit the difference from the market price to sell them to shareholders to bring in more money. Thus, these options function to cover up funds shortfalls caused by the listing corporation's poor performance and the decline in their profits. Consequently, both the market and the authorities in charge refuse them. The authorities first decided in 1993 that total options could not exceed 30 percent of total capital stock. In 1994, they further announced that option shares would be treated the same as new shares. Some listing companies have their own remedies for this loss of opportunity to bring in money.

In Chengdu, Liangju issued individual shareholders 12 option shares for every 10 shares held.

In Sichuan, Etie issued individual shareholders 10 option shares for every 10 shares held.

In Sichuan, Jinding issues individual shareholders 10 option shares for every 10 shares held.

Guanghua in Sichuan issues individual shareholders 6 option shares for every 10 held.

The "Corporation Law" provides that listing corporations capital stock may not be less than 50 million shares. Some listing corporations having insufficient share capital go in big for bonus shares and option shares. Examples are "Xiaofei," and "Aishi," each of which issued 30 option shares on top of 30 bonus shares for each 10 shares held. Since option shares may not be more than 30 percent of total capital stock, many corporations issue bonus shares first, then issue options shares after increasing the total number of stock shares.

Zhongcheng Enterprises issued 3 option shares on top of 5 bonus shares for every 10 shares held. Shenhua Enterprises issued 3 option shares on top of 10 bonus shares for every 10 shares held. Haima Electronics issued 6 option shares on top of 4 bonus shares for every 10 shares held. Minsheng in Shaanxi issued 3 option shares on top of 2 bonus shares for every 10 shares held.

The National Assets Bureau urgent circular notice of 9 April required state shareholders to "continue, all conditions being equal, to issue cash dividends or allot bonus shares to all stockholders." The reason is "apportioning of cash share dividends for government shares, but apportioning equal value bonus shares for other kinds of shares amounts to issuing new shares at face value to some shareholders. Inasmuch as the face value of shares generally shows up in the market price, the option share price, the share investment price, and the net asset value of each share, this method directly harms the rights and interests of government shares, causes a drop in the percentage of state equity rights, and a loss of state-owned assets." Following issuance of the circular notice, some corporations paid no attention to it. Jiangling in Jiangxi: allotted 2.80 yuan per 10 government shares, and issued 2 bonus shares and 0.80 yuan per other 10 shares.

Baige in Hubei: issued 1 bonus share per 10 government shares and allotted 3 yuan per share. For other shares, it gave 4 bonus shares per 10 shares.

Leshan Electric Power: allotted 2 yuan per 10 public shares, and give 2 bonus shares per 10 individual shares.

Huabei Pharmaceuticals: allotted 1.10 yuan per 10 government shares; it issued 4 bonus shares and allotted 3 yuan per 10 shares sold to the public at large.

Jilin Pharmaceuticals: allotted 1.66 yuan per 10 public shares, and issued 1 bonus share and allotted 0.66 yuan per 10 individual shares.

Jiangsu Materials: allotted 2 yuan per 10 corporate shares, and issued 2 bonus shares per 10 individual shares.

Sichuan Salt Chemicals: Allotted 1.60 yuan per 10 public shares, and issued 2 bonus shares per 10 individual shares.

Changyin in Wuhan: issued 2 bonus shares and allotted 2 yuan per 10 public shares, and issued 4 bonus shares per 10 individual shares.

Time and data are limited, but I believe there are quite a few similar situations. By no means have we traced matters back to the options share problems of listing corporations during the past several years.

Recommendations

To summarize the foregoing, we can see that the public share problem might be said to be a concrete expression of failure to reform the country's share system completely. It has become an enormous obstacle to building the share system, and it is a major illness plaguing healthy development of the country's securities markets. In this connection, we offer the following recommendations:

1. The enterprises that were first to list have enjoyed very many policy preferences during the past several years for which they should recompense society. They

have made a contribution and provided support to the transformation of the share system and changing state-owned enterprises. Nevertheless, instead of making a strong effort to change the enterprise operating system, a number of enterprises have used their status as listing corporation to create a false appearance of profits through the use of options and the loss of public shares. It is recommended that the State Commission for Restructuring of the Economic System, the Chinese Securities Supervisory Committee and the National Assets Bureau form a joint survey team to conduct a general survey of listing company's losses of public shares in recent years, using the results as a basis for drawing up punishment methods, and for using primarily fines to establish a securities market stabilization fund in China for use in regulating market capital supply.

2. The listing corporation guidance period system that has just begun should be extended to old line listing corporations, any of their actions that do not meet listing standards being corrected.
3. Consideration might be given to halting new share listings within a year or two, and to gradually withdrawing the public shares that listing corporations have issued. This would enable future listing corporations to have no lingering public share problems.

The present situation suggests that the longer the public share problem goes on, the more difficult it will become to solve. Therefore, it is recommended that the authorities concerned have a clear understanding of this problem, and solve it early.

Value-Added Taxes Unfair to Certain Taxpayers

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[Article by Xian Chunlong (0752 2504 7893): "Negative Regulatory Effects of Value-Added Taxes and Tax Burden Changes in Enterprises"]

[FBIS Translated Text] Under the guidance of the modern economic theory, the value-added tax is used to levy tax on all the products with a single tax rate. It is a pure measure of fund accumulation. It adheres to the neutral principle and keeps pace with the neutral trend in reforming the modern taxation system. It protects the allocation of resources under market economic conditions from being affected by the taxes. Therefore, since the value-added tax was first introduced in France in 1954, it had won popularity in scores of nations throughout the world and become the main source of the turnover tax in these countries. Due to the fact that it fits in with the needs of the socialized mass production with a finer division of labor, eliminates the disadvantage of double taxation in levying the product tax and does a better job in following the principle of being efficient, impartial and neutral, China had also "introduced" this

new tax category since the end of 1970 and levied such tax on some industrial products on an experimental basis. It was not until the new round of tax reform in 1994 that the value-added tax has completely replaced the product tax and become the main source of the turnover tax. However, the reform of the value-added tax involves the entire industrial and commercial sectors and some labor departments. In addition, the time is short. Particularly not enough support is given by other sectors (such as the financial sector). As a result, a negative regulatory effect has prevailed in the course of levying the value-added tax. All this runs counter to the legislative spirit of the state in taxation. The state legislative organs and taxation enforcement departments must pay full attention to this situation. Otherwise, it will go against the original intention of tax reform and even hamper the reform of China's market economic system.

I. Neutral Thinking in Taxation: Reducing Regulatory Function of Indirect Tax (Turnover Tax)

As an important economic lever, taxation has a relatively strong regulatory function. If the government plans to restrict the production and consumption of a specific commodity, it often achieves its aim by means of taxation. The role of the turnover tax (including the value-added tax) is even more significant in this regard. However, theoreticians who uphold the neutral thinking believe that without any doubt, taxation by the state will have an impact on the economic behavior of individuals and enterprises, and undermine the relations between the cost and the remuneration of various economic activities as if a wedge is driven into the pricing system, separating the cost of the producer (marginal rate of transformation) and the interest of the consumer (marginal rate of substitution). As a result, the principal part of the macro-economic activities is misguided, and production and consumption will no longer tally with the principle of maximizing the efficiency in the utilization of resources.

At the end of the 19th Century, A. Marshall who proceeded from the theory of equilibrium price believed that taxation on a specific commodity will have an impact on the price of the commodity and bring about aberrations in supply and demand (or changes in the curve of supply and demand). This will affect the selection of the taxable commodities and other products and create "extra taxation losses." The amount of this kind of extraneous losses is proportional to the elasticity of demand for this specific commodity. He emphatically pointed out that the state should levy the direct tax to prevent the indirect tax from changing the relative price of consumer goods and creating extra losses. Later, U.K. Hicks, F.W. Joseph and others used the theory of indifference curve to study the impact of all types of taxes on individuals. They believed that when a certain tax is levied, consumers' losses can be kept at minimum, if individuals can be helped to reach the highest point (which is farthest from the point of origin) on the

indifference curve. The result of a comparison shows that levying income tax is better than levying tax on a specific commodity alone, because the income tax will not affect consumers' behavior in choosing the best buy.

Such is the source of the neutral thinking on taxation. It demands that the state should try its best to avoid distorting the market mechanism in levying taxes and minimize the extra losses caused by taxation which reduces the efficiency in the utilizing resources. In other words, taxation must tally with the neutral principle.

The 14th National CPC Congress had explicitly pointed out that to deepen the reform of China's economic system is essentially aimed at adjusting the orientation in the development of the market economy. The fundamental issue is to reform the pattern in allocating resources. Under the conditions of market economy, it is necessary to use market mechanisms as the basic means in controlling resources allocation. The government should only exercise its control in creating an environment for fair competition on the market and work out regulations for market competition. In order to meet the requirements in developing this new system, the government must duly adjust its functions, refrain from excessively interfering with the economic affairs as it did in the past, and guard against inefficient allocation of resources as a result of government interferences and distorted market signals. As far as tax reform is concerned, taxation by the government will inevitably create tax burden, while tax burden will naturally affect the behavior of the micro-economic entities and the operation of the entire economy. Therefore, the task of the government in this regard is arduous.

How can we minimize the destructive effect of taxation on market competition? There are two choices. One is to eliminate the turnover tax (the value-added tax included). The other is to establish the turnover tax system with the value-added tax as its main source, and adopt a single tax rate by standardizing the system in levying the value-added tax. It is obvious that the first choice is unacceptable, because it denies the basic function of taxation for fund accumulation. To accumulate fund has always been the most important function in taxation. Therefore, our choice can only be the second one. Although the value-added tax designed on the basis of the neutral principle is purely a tax category to accumulate funds, it does not completely deny the function of taxation in regulating the economy. At least, there are two reasons supporting this statement. First, other non-neutral tax categories (such as the consumption tax) will be used to regulate the product mix, while the value-added tax will only be levied on the final product. Second, the ideal market with perfect competition does not exist. The role of market mechanism only exists in "areas which are out of order." Therefore, we cannot merely rely on market mechanisms to optimize the allocation of resources. We must supplement it with the macro-control of the government. Only doing so, will it be possible for us to attain high efficiency in allocating

resources. That is to say that we do not demand uniformity in levying the neutral value-added tax. In the course of levying such tax, we treat different taxpayers in different ways so as to actively and appropriately bring into full play the role of taxation in regulating the economy. Here, the key lies in the issue of "appropriateness." If we act inappropriately, we will accomplish the very opposite, and the effect of taxation in regulating the economy will run counter to the legislative spirit.

II. Negative Regulatory Effect of Value-Added Tax: Inequitable Tax Burden, General Taxpayers Become Small-Scale Taxpayers

Under the complex tax system, the turnover tax becomes the main source of the tax revenue. The new tax system is designed in line with the principle of fairness, neutrality, transparency and universality and the guideline of maintaining the original scale for tax revenue. The value-added tax has been highly praised in the world, because it has a distinct function of optimizing the industrial organization and structure. China designs its value-added tax as follows: First, it follows the neutral principle while taking into consideration the macro-financial policy of the state. As far as the tax rate is concerned, it adopts a basic rate (17 percent) and another low tax rate (13 percent). The low tax rate is applicable to four categories of goods—daily necessities for the people; books, newspapers and magazines; major producer goods for farming; and other goods specified by the State Council. Second, in order to simplify calculation, the internationally popular method of not including the tax in the calculated price is adopted and the amount of value-added tax is figured out by using the tax deduction method. That is to implement the system of using the amount of tax explicitly indicated on the invoice as a tax credit. As for the tax-free farm products purchased, the purchaser is allowed to use 10 percent of the purchasing price as his or her purchasing tax. Third, in order to accurately figure out tax credits, it is necessary to implement a professional tax collection and auditing system including tax registration, the use of special invoices and the establishment of the computer tax collection system. Finally in order to facilitate the collection of taxes from enterprises with an inadequate accounting system or small industrial and commercial businesses, we should encourage taxpayers to set up a good accounting system and continue to improve it; and divide the taxpayers into two major categories—the general taxpayers and the small-scale taxpayers. In dealing with small-scale taxpayers, we levy the value-added tax with a tax rate of 6 percent. That means a commodity will be levied a value-added tax of 6 percent of the sales price of any commodity. They are not allowed to use this value-added tax as a tax credit to offset their purchasing tax. As a result, small-scale taxpayers pay higher tax than the general taxpayers. This is aimed at encouraging small-scale taxpayers to become general taxpayers, further standardizing the tax system and reducing cases of tax evasion and dodging.

There is no doubt that this design is entirely correct. It has little effect on the overall tax burden of the enterprises and the state revenue. Meanwhile, it is the basic principle in reforming the tax system. It is specifically aimed at unifying the tax laws, imposing equal tax burden on all taxpayers, simplifying the tax system, decentralizing the powers, straightening out income distribution, standardizing the form in income distribution and guaranteeing the state revenue. It is also the principle in reforming the value-added tax. It is specifically aimed at thoroughly combining tax rates, avoiding double taxation and increasing the transparency of the "neutral" value-added tax. Therefore, when we first identify the value-added taxpayers, many of them apply to become general taxpayers in order to enjoy the treatment of deducting their tax credits from their tax payments. However, some enterprises are unable to enjoy this kind of treatment, because they are in specific trades. In despite of the fact that they are the general value-added taxpayers, they cannot prove that they have paid their purchasing tax which can be used as a tax credit. As a result, their tax burden is higher than that of the small-scale taxpayers. Thus, many of them want to change their tax-paying status to small-scale taxpayers. All this creates a negative regulatory effect.

As far as industrial enterprises are concerned, those in the building material and mining industries, in the production of primary products and in the processing industry with agricultural and sideline products as its major raw materials (such as cotton textiles, silk-reeling and paper-making) would bear heavier tax burden. This is because the organic composition of capital of the mining industry is high and the industry has made larger investment in fixed assets. It cannot deduct its purchase tax from the production-oriented value-added tax paid to the state. The processing industry buys its agricultural and sideline products from thousands and thousands of peasant families. It is unable to attain special invoices it needs for tax purpose. It can only use 10 percent of the purchasing price as tax credit and deduct it from the value-added tax, while industries in other trades may take 17 percent of the purchasing price as tax credit. Apparently the processing industry bears a heavier tax burden. As general taxpayers, these industries either pay taxes without any tax credit or pay high taxes with little tax credits. All of them have paid over 6 percent value-added tax. Therefore, after the implementation of the new tax system, the tax burden of these enterprises will notably increase. As general taxpayers, enterprises' tax burden will be heavier than that of small-scale taxpayers. Thus, a negative effect will inevitably arise. That is, enterprises would prefer to be small-scale taxpayers instead of general taxpayers. According to a survey conducted by the Chengde City Tax Bureau in Hebei Province, the rate of value-added tax on cement is 7.4 percent, that on ferrous powder 8 to 10 percent, that on raw coal 7 to 9 percent, that on canned food 6 to 8

percent, that on bricks and tiles 9 to 11 percent and that on processed garments 10 percent. All of them exceed 6 percent.

Let us examine those enterprises in commodity circulation business. They are more affected by the tax reform than the industrial enterprises. As compared with the business tax they were originally paying the state, the new value-added tax has made them face more new problems in terms of tax rate, the calculation of the tax amount payable and methods in tax collection.

(1) The most outstanding issue is one on the increase of tax burden of enterprises in wholesale business. According to the original tax system, they were taxed 10 percent of the difference between their purchasing and selling prices. According to the new tax system, they have to pay 17 percent of the before-tax selling price as tax. Their actual tax burden is increased by 3.8 percent on top of their original tax burden of 13.8 percent. According to the calculation made by the No. 1 Office of the Financial Accounting Department of the Ministry of Internal Trade, those enterprises in commercial wholesale business have a huge marketing network with an annual amount of sales reaching 200 billion yuan. After the value-added tax replaces the business tax, they have to pay 990 million yuan more taxes per year. Moreover, during the past 10-odd years, the wholesale enterprises were always faced with difficulties, because the sales of 70 to 80 percent of their merchandise in stock are sluggish or just average. Thus, they have earned only a small amount of tax credit, while they will undoubtedly have to pay a large amount of interest for the money tied up. More important is the fact that during the "running-in period" of the new tax system, there are no special invoices for the goods in stock at the very beginning, how to verify the actual amount of inventory and appraise the value is a thorny issue. Attention should be given to the issue of tax deduction for the goods in stock when the new tax system is first introduced. Otherwise, a negative regulatory effect with the tax burden of the general taxpayers heavier than that of the small-scale taxpayers will prevail. This will harm the development of China's market system and the socialist market economy.

(2) The changes of the tax burden of the enterprises in the grain business also draw the people's attention. The new tax law stipulates that enterprises in grain business will be levied 13 percent sales tax with a deduction of 10 percent purchasing tax calculated on the basis of the purchasing price. Thus, an enterprise in grain business must pay 3.13 yuan value-added tax for every 50 kg of grain it handles. If all the enterprises in grain business in the country handle 100 billion kg of grain, they must pay more than 6 billion yuan value-added tax. Therefore, the enterprises in grain business actually pay 20.5 percent tax instead of 13 percent. Such a high tax rate has seriously dampened the enthusiasm of the rural basic-level supply and marketing cooperatives in handling grain. It does not tally with the state rural economic policy which supposedly favors the main grain-producing districts. It will prevent agriculture from

becoming market-oriented. If the state takes no corrective measures, either the enterprises shift their tax burden onto the consumers and increase the grain selling price, or they use the measure of reducing the grain purchasing price—a measure which will affect the peasants' income, or they must sacrifice their own interests. All these three consequences run counter to the original intention in reforming the new tax system. On the basis of the same reason, "ill-fate" falls on enterprises which procure waste and used materials and nongovernmental relics just like it does on those enterprises which procure grain. Because of the peculiarity of their trade, they often buy things from thousands and thousands of families. As general taxpayers, they are unable to obtain special invoices and enjoy the benefit of "earning tax credits." Therefore, they apply to become small-scale taxpayers.

(3) The issue of producer goods for farming is also thought-provoking. The suppliers are particularly worried about imported producer goods for farming. In the past, the policy of levying no product tax on raw materials and producer goods for farming has always been implemented in order to reflect the state preferential treatment in favor of agriculture. In addition, the suppliers are permitted to import producer goods for farming at par exchange rate. The new tax system introduces a preferential tax rate of 13 percent, but business dealers who handle producer goods for farming will definitely pay higher taxes. Meantime, the price of producer goods for farming will inevitably rise since the unification of the dual exchange rates. For imported commodities, there exist no problem of separating tax from price. The customs office levies the value-added tax on behalf of the government. In other words, the cost of imported goods is equivalent to CIF price plus 13 percent tax. In this way, the price of each ton of chemical fertilizer will be increased by 180 to 200 yuan when it is delivered to the hands of the peasants, while that of plastic sheets for farming by more than 50 percent. If the state does not work out any preferential policy in this connection, this situation will seriously hamper agricultural production and cause the market and production to wither. All this will directly affect the "food basket" and the "rice bag."

In addition, the actual tax burden of commercial retail enterprises who are general taxpayers is 2 to 4 percent. Normally their tax burden is much lighter than the 6 percent tax burden of the small-scale taxpayers. However, it is hard to verify the actual income of small-scale taxpayers, because their bookkeeping system is not so sound. Their actual tax burden can hardly reach 6 percent. Some general taxpayers are still paying higher taxes than small-scale taxpayers.

Although we carry out the reform of the tax system according to the principle of keeping the general scale of tax burden intact, changes of the tax burden for a certain specific enterprise are nevertheless unavoidable. This is precisely the objective in developing market economy, optimizing the resources allocation and reforming the

tax system. However, the situation wherein general taxpayers rush to become small-scale taxpayers merits attention. Tax legislation departments and the law-enforcing organs must pay full attention to such situation and analyze the reasons. They must study the system and adopt specific corrective measures. They must further improve the new tax system and help it achieve its goal in accumulating funds and regulating the economy and become the backup force and play the role of a "railway track switch tender" in support of the market economy.

III. Deliberation and Suggestion

There are two main reasons for the negative regulatory effect which arises in the course of levying the value-added tax. One of the reasons is that the implementation of the new tax system is hasty, and the policy itself is imperfect. We need to improve this system. For example, enterprises with more fixed assets, which produce primary products, cannot use their purchase tax as a value-added tax credit. Enterprises which use tax-free raw materials either have no or little purchase tax to deduct from the value-added tax. Enterprises in the procurement business are unable to acquire special invoices. They cannot figure out and use their purchasing tax as a value-added tax credit. The value-added tax is still far from being standard and comprehensive. For example, the transportation sector only needs to pay business tax, but no value-added tax. They cannot use their transportation cost as a tax credit. It is impossible to accurately check the inventory of the enterprises when the new tax system is first introduced and the method of using paid taxes as a value-added tax credit remains unclear. The second reason is poor management. Government policies and regulations are not strictly enforced. Without a sound accounting system, it is hard to verify the actual income of small-scale taxpayers. Their actual tax burden is different from their nominal tax burden. Although they are supposed to pay 6 percent tax, they actually pay far less than that. To cope with this situation, we must, first of all, further improve the tax system, strengthen our management, basically avoid unreasonably increasing the tax burden of some enterprises, and prevent the negative regulatory effect from arising in the course of levying the value added tax. We suggest that the legislative organs start working in the following aspects and work out even more specific plans and measures in implementing the new tax system:

1. They must realistically tackle some issues wherein some enterprises cannot use or completely use the expenses they have incurred in purchasing goods as tax credit. At the present stage, we must explicitly give preferential treatments to enterprises in certain trades. For example, enterprises which engage in grain business or procure waste and used materials, wholesale enterprises which handle producer goods for agriculture and some other manufacturing enterprises should be exempt from the value-added tax. At least, we must adequately increase the tax credit of the purchasing tax for those enterprises which purchase farm and sideline products.

When enterprises with no special invoices purchase goods, they should also be allowed to earn tax credits as if they have purchased farm and sideline products. When those enterprises have already paid taxes for their goods in stock and verifications have been made on their inventory and tax payments, measures should be taken to give them tax credits in the same month they draw on their capital in order to alleviate the pressure on their financial resources.

2. We must standardize the value-added tax system and extend the range in levying such tax. When conditions are ripe, we should change the "production-oriented" value-added tax into an "income-oriented" value-added tax; allow the enterprises to use the amount of depreciation of their fixed assets as tax credit in the same year or change this tax into a "consumption-oriented" value-added tax. We should allow enterprises to use the tax they paid for their fixed assets as a tax credit in a lump-sum in order to help the tax system become fair and reasonable. In addition, we may gradually extend the scope the value-added tax to communications, transportation and other sectors of the service industry. This is the only way to fundamentally solve the problem of the enterprises not being able to use the shipping costs for the goods they have purchased as a tax credit. Successes in other countries in the world prove this point. Naturally the value-added tax is not yet applicable in the transportation industry right now. We may adopt a flexible measure of allowing those in the transportation industry to use a portion of their actual shipping cost as a tax credit.

3. We must foster the legal concept, strengthen our management and strictly enforce tax collection. Particularly we should strengthen our control over small-scale taxpayers and do a good job in conducting check-ups and carrying out our supervision work. Meanwhile we should ensure that they set up a sound financial system within a definite period and stop carrying out illegal activities such as tax evasion. We must resolutely and seriously handle those who evade taxes and ensure the smooth implementation of the new tax system.

Sometimes, the principle of fair taxation contradicts with the principle of efficiency. How can we handle the relation between the two? After studying the 100-odd year-long economic history of several Western countries, U.S. economist S. Kuznets proves that at the initial stage of development, a nation often allows larger income differences in exchange for higher efficiency, while during the stage of development, it will seek to narrow the income gap so as to maintain social stability. China is now in the initial stage of development. We should give priority to implementing the principle of efficiency. Our policy on taxation is of no exception.

Naturally, in discussing the issue of the tax burden of the enterprises, we have no intention of denying the significance of the new tax system. Since we are carrying out economic reform, the old pattern for benefit distribution

will naturally be smashed, and we expect the changes of the tax burden on the enterprises. The development of market economy is aimed at raising efficiency in allocating resources, encouraging fair competition and selecting the superior and eliminating the inferior. Therefore, enterprises must fully understand the issue of the tax burden changes. We must gradually correct the legislative inadequacy in the tax system itself in the course of implementing such a system. At the time when tax legislation is being adjusted, the increase in the tax burden is an inevitable "labor pain" in the course of developing a market economy. Enterprises should regard this situation as a kind of pressure and a turning point; consciously deepen their studies; and try to understand and master the basic principle of the new tax system. They should change their concept; energetically optimize their product mix; rely on their own strength to develop themselves; and try to solve the tax burden problem by energetically pushing sales and accelerating the collection of receivable payments. They should strengthen their management, improve their financial system, optimize the management mechanism and become modern enterprises as soon as possible.

Gold Dealings Termed Virtual State Monopoly

95CE0124A Hong Kong KUANG-CHIAO CHING [WIDE ANGLE] in Chinese No 262, 16 Oct 94 pp 88-90

[Article by Liu Shan-en (0491 1472 1869): "New Situation in China Gold Market"]

[FBIS Translated Text] China Gold Market Does Not Respond After Repeated Calls and Urging

Gold, which has always served as a currency and a national reserve in China, is increasingly pouring out of the national treasury, returning to commodity markets. The gold business, which has always been strictly controlled in China, has also consequently begun to move in the direction of the various policy adjustments of the market economy. However, at this point, the gold business is still vacillating, wanting to let go but holding fast. The mainland gold market is still not responding after repeated calls and urging.

Low Price Policy Supports Traditional Gold Control System

China's gold policy follows the basic gold monopoly and low gold price framework. The sole basic regulation for the control of gold in China is "People's Republic of China Gold and Silver Control Regulations," which were promulgated during the early 1980s, the framework and aim of which stems from the interim measures for gold and silver regulation put into effect when the Chinese Communists had not yet set up a government. This regulation prohibits the free buying, selling, and circulation of gold and silver. Dealings in gold are a monopoly of the Chinese People's Bank.

Price of Gold Adjusted Eight Times

Yet another key point in the control of gold in China is the adoption of a low price policy: China's gold price is

not geared to the international price of gold. It is set by the Chinese People's Bank, and a fixed price system has been set that does not track the market. Following decontrol of the international gold price during the 1970s, a wide gap occurred between the domestic gold price and the international gold price. During the year when the gap was widest, the domestic price of gold was less than one-third the international price. For the past 21 years, the international price has been higher than the domestic price of gold. Since 1975, China has adjusted the price of gold eight times, but even with the addition of a so-called national economic preference for gold producing concerns that comes to 450 yuan renminbi per tael, the domestic prices remains an average 30 to 40 percent lower than the international price.

The low gold price is also the basis for the establishment and operation of the mainland's entire gold business control system. This is most conspicuously manifested in the following way: By buying gold at a low price inside China (and selling it at the higher international price), the state is able to fund regulation and control of the business economy, and provide operating expenses for administrative organs at all levels.

The direct result of this state of affairs is as follows: Progress in reforming the Chinese gold control system in the direction of a market economy system is extremely slow. Growth of the gold market lags.

China is the World's Main Gold Jewelry Sales Market

China's demonetization of gold also follows the international trend. First is the weakening of the role of gold reserves: In 1978, gold accounted for 27.3 percent of China's total reserves. It was the main form of reserves. By 1978, national foreign exchange reserves increased 6.3 fold, and gold declined to 3.7 percent of total reserves. By 1992, gold had fallen to 2.1 percent. On the other hand, the people's gold purchasing power increased sharply. Sales of gold jewelry increased from 500 million yuan renminbi in the early 1980s to more than 20 billion yuan in the early 1990s to make China the world foremost gold jewelry sales area. At the same time, under the low price gold policy, more and more gold mines saw a fall in returns and a rise in losses. They were hard pressed to continue operation. Therefore, since the advent of the 1990s, even though the authorities continue to maintain a policy orientation of "adjusting prices and maintaining the system," the clamor for China to establish gold markets has become stronger and stronger.

Finally, ever since the first half of 1993, spontaneous dealings in gold have occurred. First some extremely hard pressed mines began the semi-open circulation of gold in clandestine markets or civilian-run markets at more than double the official price. This led to a sharp decline in the amount of state gold procurement. It has been estimated that in 1993, one-third or more gold was privately purchased. The clandestine market was unprecedentedly lively, and the centralized procurement

monopoly system was hard hit. Even though the authorities doubled the price of gold in 1994, they have still been unable to stop the serious loss of gold. During the first half of 1994, between 30 and 40 percent of gold mine production was still going to the spontaneous market.

The damage that the underground gold market has caused goes without saying. However, the existence of an underground economy is frequently a response to and a remedy for the shortcomings of the open economy.

High-Level Shocks from Policy Adjustments

The new state of affairs in the development of the mainland China gold market in 1993 gave policy organs an extremely great shock. It made them readjust gold policy. They decided that gold would ultimately have to become a part of market reform goals, and they commenced to do some real work on this reform:

- They designated the Chinese People's Bank the leader in drawing up a plan for the founding of a regular gold market;

In accordance with the principle of meshing with "Regulations For All Industrial Concerns Under Ownership of the Whole People Transforming Their Operating Mechanisms," they revised the "Gold and Silver Control Regulations" that had been drawn up in 1983.

The price of gold was changed from a fixed price to a floating price system, and was geared to the international price of gold, i.e., the price of gold was set at 90 percent of the international price. Two price readjustments doubled the procurement price.

However, actual progress has been very slow during the past more than a year on these real actions and reform measures that are regarded as the founding of a gold market mechanism. Moreover, everything having to do with the development of a gold market has been delayed indefinitely:

- No marked progress has yet been made on revision of the "Gold and Silver Control Regulations" which were slated for completion by the end of 1993.

Although every jurisdiction expressed extremely great enthusiasm for the founding of a regular gold market, the authorities in charge have maintained a low posture throughout. The orientation and principles underlying plans remain hazy.

The change of the price mechanism from fixed to floating was regarded as a key link in the founding of a market mechanism, but the actual situation today is that prices are fixed and not floating. It amounts to a return to the former setting of prices by the state.

Conversely, between May 1993 and June 1994, three documents appeared one after another that clearly gradually strengthened and emphasized the state monopoly on gold dealings and diluted the market reform orientation.

Stamping Out of the Spontaneous Gold Market and Revamping Gold Production Procedures

People in the business feel that the main reason for stamping out the gold market and revamping gold production procedures is that after the state adjusted prices, it found that prices approximated the international level, and that it was still unable to halt private gold buying. Therefore, it was no longer possible to make readjustments using the economic means of the old system, and a normal gold market had yet to develop. The only choice available to end the present disarray was to increase state interference.

Consequently, in June 1994, the State Council ratified and forwarded the applicable circular notice in which the decision was made to stamp out the spontaneous gold market and rectify gold production and trading procedures. It reaffirmed the centralized procurement monopoly, and prohibited smuggling or private dealings. The ban did not go through the gold jewelry production and business units whose operation the Chinese People's Bank had approved. It strictly prohibited trading in gold futures. It reiterated protected mining of gold ore, strictly prohibited illegal individual gold prospecting, smelting, and processing, or the resale of gold ore at a profit. It instituted fixed-point control over gold jewelry production, processing, wholesaling, and retailing, all gold needed for these purposes to be purchased from banks, no private purchases allowed.

Industry

Economist Dong Fureng on Liaoning Industry

95CE0133A Shenyang LIAONING RIBAO in Chinese
8 Nov 94 p 6

[Report on interview with famed economist Dong Fureng (5516 6534 4356), by Wang Dongmei (3769 0392 2734), in Liaoning Province in the late fall of 1994: "The Remedy for Liaoning Industry: Structural Adjustment"]

[FBIS Translated Text] In recent years, Liaoning industry has been in a predicament about which everyone is concerned, from the provincial governor and factory managers down to workers not receiving enough pay. To help Liaoning industry, which once ruled the roost, Liaoning business and finance circles, as well as government organs, have all made unstinting efforts, resulting in certain enterprises turning losses into profits, and some older enterprises regaining their youthful vigor. But Liaoning industry has generally not yet improved fundamentally, not to speak of any complete extrication from its plight. So what is actually the remedy for Liaoning industry?

In the late fall of 1994, China's famed economist, Mr. Dong Fureng, who has visited Liaoning repeatedly, discussed his views in an interview with the reporter. Mr. Dong Fureng, the 68-year-old former director of the CASS Economics Institute, who is currently a member of

the NPC Standing Committee and vice chairman of the NPC Financial and Economic Committee, is an economics professor but still a postgraduate student who has visited Liaoning repeatedly, studying and investigating Liaoning industry, which he thus knows fairly well. He says that Liaoning industry's key problem is structural. In Liaoning industry, the "four too-manys and four too-fews" have aroused much attention. They are too many state enterprises and too few nonstate ones, too many large enterprises and too few medium and small ones, too many heavy industrial enterprises and too few light industrial ones, and too many military enterprises and too few civilian ones. Unless this structure is changed, it will be very hard for Liaoning industry to bring about an upswing.

While these large state enterprises were Liaoning's economic advantage during our planned-economy period, they have become a disadvantage since we moved to a market economy. These large enterprises bear a heavy historical burden, with obsolete machinery and equipment, making both market access and success in market competition very difficult, while the considerable investment needed for all-out technological upgrading is often not sustainable by the enterprises themselves. As to this, Mr. Dong Fureng says that the state needs to invest more in Liaoning industry. This would be a long-range strategic policy. An economic great nation absolutely must not let its basic industries, such as iron and steel, machine tools, oil, and power, wither away as, unless its basic industries are really up to the mark, its whole industrial complex will be dragged down. While we now have much advanced equipment, we certainly do not make advanced products, because our material quality is poor, which is caused by our backward basic industries.

So as to a macroeconomic strategy to develop our economy, we need to place importance on developing our basic industries.

In addition to state investment, Mr. Dong Fureng holds that attracting foreign investment is a crucial matter. As Liaoning and the whole northeast is a very vigorous economic region, Liaoning is a fine choice of target for foreign firms that wish to invest in basic industries. So Liaoning needs to steadily improve its investment climate, particularly and primarily that of Dalian, which port city could bring along a group of other cities.

Of course, Liaoning also needs to emphasize improvement of its own structure. But while we have done much work in this area in recent years, Mr. Dong Fureng believes that we still need to speed up our pace. We need to gradually lower our ratio of state enterprises. In addition to vigorously developing nonstate enterprises, certain state enterprises could also be converted to civilian operation in various forms. Large state enterprises could be broken up in forms, such as grafting and stripping, enabling parts of them to become independent. For instance, the Wuhan Iron and Steel Corp. has totally separated out its noniron and steel sector, with the intention absolutely not being merely to cast off the burden.

Heavy industry needs to reduce its market risk through product diversification, with Liaoning's qualified heavy industry developing diversified products. Meanwhile, Liaoning's military enterprises have strong technical might, so are also capable of developing civilian products that are competitive on markets. Sometimes emphasizing just a single product correctly can invigorate a whole enterprise. In short, Liaoning needs to change its industrial structure as quickly as possible, only in this way can Liaoning industry eventually be extricated from its predicament, to restore Liaoning's power.

Light Industrial Output Value by Area in Oct

HK0712131294 Beijing CEI Database in English 7 Dec 94

[FBIS Transcribed Text] Beijing (CEIS)—Following is a list of the light industrial output value by area in China in October 1994, released by the State Statistical Bureau:

(unit: 100 million yuan)

Area	10/94	10/93	Change Over 10/93 (pc)
Total	1827.18	1396.18	30.9
Beijing	41.45	29.14	42.2
Tianjin	40.33	29.93	34.7
Hebei	54.85	44.75	22.6
Shanxi	11.65	10.47	11.3
Inner Mongolia	13.14	10.74	22.3
Liaoning	56.12	41.40	35.6
Jilin	22.95	18.84	21.8
Heilongjiang	27.09	22.57	20.0
Shanghai	120.42	97.40	23.6
Jiangsu	294.00	209.47	40.4
Zhejiang	188.27	142.15	32.4
Anhui	56.86	40.14	41.7
Fujian	59.78	47.20	26.7
Jiangxi	28.76	21.91	31.3
Shandong	180.35	134.40	34.1
Henan	63.65	54.17	17.5
Hubei	69.03	47.97	43.9
Hunan	36.75	30.60	20.1
Guangdong	273.31	206.29	32.5
Guangxi	27.31	23.40	16.7
Hainan	4.30	3.92	9.7
Sichuan	72.62	56.70	28.1
Guizhou	9.22	7.72	18.4
Yunnan	20.22	16.74	20.8
Tibet	0.09	0.09	-
Shaanxi	19.31	17.90	7.9
Gansu	8.31	7.32	13.5
Qinghai	1.92	1.57	22.3
Ningxia	1.93	1.91	1.0
Xinjiang	23.19	19.37	19.7

Bureau Issues Oct Mechano-Electronic Output Figures*HK0312021294 Beijing CEI Database in English 2 Dec 94*

[FBIS Transcribed Text] Beijing (CEIS)—Following is a list of the output of China's major mechano-electronic products in October 1994 released by the State Statistical Bureau:

Item	Unit	10/94	10/93
Power equipment	10,000kw	73.50	100.08
Ac motor	10,000kw	421.08	416.14
Industrial boiler	ton	6535.61	7116.00
Machine tool, including:	10,000 set	1.39	1.86
Nc machine tool	385.00	647	66
Precision machine tool	set	85	
Large machine tool	set	216	374
Automobile, including:	10,000	11.58	8.79
bus	10,000	1.08	0.72
car	10,000	2.26	1.59
truck	10,000	4.56	3.84
Motorbike	10,000	54.31	29.58
Tractor(20hp/above)	10,000	0.44	0.19
Small tractor	10,000	11.79	6.71
Locomotive, including:	set	73	79
diesel	set	63	60
steam	set	-	2
electric	set	10	17
Passenge coach	set	185	132
Freight wagon	set	2656	3311
Internal combustion engine	10,000kw	1053.60	691.90
Fishing ship	-	-	-
Civil steel ship	10,000ton	28.31	21.44
Computer	set	65	34
Micro computer	set	11394	8884
Color crt	10,000	122.22	78.72
Program-controlled switchboard	10,000set	142.43	107.68

Bureau Issues Oct Chemical Product Output Figures

HK0312021494 Beijing CEI Database in English 2 Dec 94

[FBIS Transcribed Text] Beijing (CEIS)—Following is a list of the output of main chemical products in October 1994, released by the State Statistical Bureau:

Item	Unit	10/94	10/93
Chemical fiber	10,000t	21.90	18.95
Sulphuric acid	10,000t	18.82	16.50
Dense nitric acid	10,000t	4.53	4.34
Soda ash	10,000t	50.81	48.65
Caustic soda	10,000t	38.22	32.09
Ethylene	10,000t	20.68	18.27
Calcium chloride	10,000t	27.51	22.54
Pure benzene	10,000t	7.52	7.68
Synthetic ammonia	10,000t	216.00	179.73
Chemical fertilizer	10,000t	190.31	169.73
(nitrogen)	10,000t	145.86	125.87
(phosphorous)	10,000t	42.08	41.36
(potash)	10,000t	2.35	2.28
Chemical pesticide	10,000t	1.49	1.08
Paint	10,000t	9.79	8.33
Dyestuff	10,000t	1.35	1.89
Chinese patent			
medicines	10,000t	2.60	1.80
Tyre	10,000pc	645.52	517.40
Synthetic rubber	10,000t	4.12	3.26
Film	10,000m	715.14	192
(color film)	10,000m	682.00	192
Plastics	10,000t	32.51	29.21

Notes:
t - ton, pc - piece, m - meter

Small-Scale Enterprises

Liaoning Rural Enterprise Problems

95CE0131A Shenyang LIAONING RIBAO in Chinese
25 Oct 94 p 2

[Article by staff reporter Mei Changqing (5019 7022 7230): "Township-Town Enterprises: Worry Amid Joy"]

[FBIS Translated Text] In the first half of this year, Liaoning Province's township-town enterprises continued to maintain a momentum of stable, health, rapid development. They actually achieved 120.69 billion yuan of total output value, an 83.3 percent increase over that in the same period of last year; achieved 79.06 billion yuan in township-town enterprise industrial total output value, a 70.4 percent increase over that of the same period of last year; achieved a total profit of 7.69 billion yuan, an 81.8 percent increase over that of the same period of last year; and achieved 4.02 billion yuan

in export delivery value, a 58.3 percent increase over that of the same period of last year.

From a look at the situation with regard to the fulfillment of the main economic indices, we see that the overall situation in the development of Liaoning's township-town enterprises is good, but there is "worry amid joy"; in particular, the township-town collective enterprises are in hard straits and they "walk with great difficulty."

—The economic returns of township-town enterprises are falling. In the first half of this year, the size of the increase in the total profits of Liaoning's township-village enterprises was more than 30 percentage points lower than that of the size of the increase in total output value, and the sales profit rate of the township-village two-level enterprises fell 1.6 percentage points compared with that of the same period of last year. In particular, the cost and expenses of township-village

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enterprises have increased sharply, being 85.8 percent higher in the first half of the year than in last year. The number of losing enterprises is increasing, and they are incurring larger losses.

—The tax burden is becoming heavier. According to a survey of some cities and counties, with the implementation of the new tax system, the tax burden on the township-town enterprises will increase about 20 percent, and in particular the size of the increase of the tax burdens on mineral product excavation and the processing industry will be excessively high. A brickyard with an annual income of 5 million yuan will pay a little over 200,000 yuan more in taxes.

—Prices are rising on some raw materials, fuels, and supplementary materials. Prices have risen on the raw materials for the agricultural and sideline product processing industry; prices have risen on coke, oil, electricity, and other fuels; and the prices on some products have taken a big fall. According to a report from Liaoyang City, the price of Grade 325 Cement has fallen from 240 yuan/ton to 190 yuan/ton, and the price of red bricks has fallen from 0.12 yuan/brick to 0.085 yuan/brick. The price drops and the unmarketability of their products have caused some enterprises to operate inadequately, and there has appeared a situation of their stopping production or half-stopping production.

—There is a shortage of funds. The initial estimate is that there is a shortfall of 4 billion yuan in the province's funds, of which the shortfall in circulating funds is 2.5 billion yuan. New triangular debt has already been formed, and for state-owned large- and medium-sized enterprises the situation of defaulted loans is extremely serious. From January to April, the fact that in the province several large steel mills owed 600 million yuan in loans to township-town enterprises. In addition, the interest on the loans was high. The shortage of funds exacerbated the fall of their production and marketing rates, and also caused construction to stop or slow down on some projects on which the structural adjustment was good.

While Liaoning's township-town enterprises were rapidly developing, some old problems were not fundamentally solved; for example, small enterprise scale, poor product quality, shortage of talented persons, aging equipment, and extensive management. At the same time some new problems have appeared, e.g., blind construction, duplicative construction, pursuit of speed in output value, and weak mechanisms. Even if these problems are not mainstream, objectively they have a bad effect on the stable, healthy development of township-town enterprises. In the second half of this year, Liaoning's township-town enterprises should study and solve some contradictions and problems at a deeper level:

Reform must be deepened, particularly the reform of the enterprise's property rights system. This year Liaoning

plans to newly construct or reconstruct 5,000 share cooperative system enterprises, which would take in 4 billion yuan in money paid for the shares. The enterprises must vigorously try out and practice people-run operations, auctions, annexations, leasing, and division into small accounting units in order to strengthen the enterprises' flexible administrative mechanisms.

Management must be strengthened in order to turn on the enterprises' internal vitality. The enterprises must get beneficial results from management, look for gaps in management, and constantly raise the overall level of management. In particular, the management of individual enterprises must be strengthened. The management of individual enterprises is a big problem; for example, the problem of nonaccounting is quite prominent, and total output value statistics depend on estimates.

They must adjust the industrial structure and achieve a rational division of work in industry. Liaoning's township-town enterprises' industrial structure and the industrial structure of its major industries are identical, "if one gains all gain, if one loses all lose." At present, some steel milling enterprises, construction materials enterprises, and enterprises that provide accessories to state-owned large and medium-sized enterprises are in a state of stopped production or half-stopped production. Providing accessories to large industry is still a characteristic that the township-town enterprises want to reserve for themselves and thereby achieve a rational division of work in industry. They should change the practice of blindly following large industries.

They must raise money through many channels and rationally use funds. First, they should attract foreign businessmen and capital. Second, they should, through lateral alliances, draw in funds from inside and outside the province. Third, they should mobilize the masses to raise funds and attract investment from individual large families. Fourth, the banks and other financial departments should expand the range of loans. Fifth, funds management should be structured, and the limited funds should be used where they are most needed.

With the developed regions going up in scale, the backward regions must have a high starting point. Based on the present situation in the development of Liaoning's township-town enterprises, the fairly developed regions must get a tight grip on going up in scale, going up in grade, and going up in level; and they must vigorously develop themselves into high science and technology, large-scale, export-oriented enterprises. The backward regions must pay attention to getting a high starting point and high returns, to getting a good grip on centralized connected-segment development and on economic and technological cooperation with the developed regions. The individual and private economies must be vigorously developed, and the processing of agricultural and sideline products and the exploitation of mineral resources must be vigorously developed. No matter what

type of region it is, it must attach importance to scientific and technological progress, and must attach importance to the development of industrial, commercial, and trade zones and to the construction of enterprise groups.

Foreign Trade, Investment

Japan's New-Found Enthusiasm for Investing

95CE0079A Hong Kong KUANG-CHIAO CHING [WIDE ANGLE] in Chinese No 264, 16 Sep 94 pp 38-40

[Article by Chen Wenhong (7115 2429 7709), Lu Mai (4151 6701), and Zhu Wenhui (2612 2429 6540): "Investment Drives Growing Economic Cooperation Between China and Japan"]

[FBIS Translated Text] Japan's Rising Interest in Investing in China

However, this does not represent the entire economic and trade relations between the Chinese economic community and Japan. Nor is it necessarily the keynote of such relations in the future. During the last couple of years, economic developments in both China and Japan have posed a challenge to this four-sided relationship. In contrast to its past lukewarm attitude toward investing in Mainland China, Japan is now a much more enthusiastic investor. Economic and trade relations between the two are of growing importance. (In 1993, China became Japan's second largest trading partner, and vice versa.) Progress in Sino-Japanese economic relations and trade has been driven by the following factors:

On the Japanese side, the pattern of direct foreign investment by Japan has changed.

The Japanese economy expanded and its foreign trade surplus soared during the mid-1980's, putting enormous upward pressure on the yen. It was then that Japan's direct overseas investment took off in a big way. At that time Japan's investment was concentrated in the United States, Southeast Asia, Taiwan, and South Korea. Japan invested massively in the United States and had a particularly major presence in real estate and manufacturing (car-making, for instance). Japanese investment in Taiwan, South Korea, and Southeast Asia mostly involved the relocation of plants from Japan. After some of its industries lost their competitiveness, Japan moved them to those countries. The processed products typically were shipped to the United States and other markets. Japan invested in Southeast Asia in part to produce raw materials for consumption back home. In addition, since the late 1980's, an increasing proportion of the output of Japanese-funded processing industries in East Asia and Southeast Asia has been re-exported to Japan. There has been rapid growth in the horizontal division of labor and intra-industry trade between Japan and these nations and regions.

Japan Seeks New Outlets, Opens Up New Investment Markets

Japan's foreign investment trend has undergone a change. With the preponderance of its huge investments

in the United States and Europe suffering heavy losses in the late 1980's, Japan has cut back on investment in those nations. Some Japanese companies have actually quit the U.S. market altogether. The brief surge in Japanese investment in East Asia and Southeast Asia was a major boost to the local economies, but economic growth was soon followed in its wake by rising labor costs, skyrocketing land prices, and a lag in infrastructural construction. The ability of Southeast Asia to attract foreign capital hit a plateau and then declined. After the latest appreciation of the yen, Japan had no choice but to look elsewhere for new investment outlets. In 1992 direct Japanese investment in the United States, Europe, and Asia's four mini-dragons fell 23.3 percent, 24.7 percent, and 12.8 percent, respectively. In contrast, Japanese investment in China almost doubled. Japanese investment in China and Vietnam has shot up since 1992. There has been a shift in the goals of Japanese investors as well. In the past Japan invested overseas primarily to make goods for sale to a third nation such as the United States. Now most Japan-funded operations overseas manufacture goods for sale to Japan. Japanese investment in China is also driven by a desire to take over the local market.

Meanwhile, concomitant with changes in the investment pattern of foreign companies, there have also been changes in the political and economic conditions on Mainland China, rendering it sufficiently attractive to Japanese investors. Bilateral economic and trade relations are playing an increasingly important role.

Why Is Japanese Capital Attracted to China?

First, investing in China has become less risky. Compared with their Hong Kong and Taiwan counterparts, Japanese companies by and large think long-term and are more security-minded, while paying less attention to short-term preferential treatments. After several years of reform, particularly in the wake of the market-oriented reform launched in late 1992, the Chinese economy has become more and more mature and investing in China has correspondingly become less risky. With China deepening reform and the open policy and its economy growing by leaps and bounds, entrepreneurs around the world now have a better understanding of China and have become intensely interested in investing in that country. Some multinational corporations have begun considering moving their regional centers to China while others have done just that, which no doubt has spurred Japanese investment in China.

Second, the Chinese market is more and more open to the outside world. China has been opening up its market steadily since 1993, broadening the field of investment and approving the establishment of foreign-funded trading companies in the tax-protected zones. Foreign-funded retail operations have begun on a trial basis in special economic zones and some coastal cities. Tertiary industries including banking, insurance, air transportation, consulting, and accounting are also being opened

up gradually. Furthermore, a number of multinational corporations have been given permission to set up investment companies in China and have their shares traded on a Chinese stock exchange. In the case of production-oriented companies, China has raised the percentage of their high-tech products that can be sold domestically, in effect enabling them to use the market to help meet their foreign exchange needs. This string of measures got rid of many old restrictions and gave foreign capital accessibility to a wider field in China.

Third, market potential has become reality. China has a larger population than any other nation in the world, but per capita incomes were so low in the past that a huge population did not translate into effective purchasing power. In the wake of rapid economic growth, China's per capita income has risen sharply, a process accompanied by bi-polarization and the emergence of a high-income stratum. In 1993, for instance, over 4 million Chinese households each earned more than 30,000 yuan. Many high-income people go to great lengths to copy foreign consumption behavior and since China has few upscale products, they are more attracted to imported consumer goods and the products of the three kinds of enterprises that are wholly or partially foreign-funded. The result is a surging demand for consumer goods at the upper end of the market. Yansha Friendship Mall and Saite Shopping Center, two Sino-foreign joint ventures in Beijing which have been hugely successful in recent years, are the beneficiaries of this polarized consumption trend.

Fourth, China offers a low-cost but skilled work-force. As a result of its traditional egalitarian system of income distribution, the wages of skilled workers in China differ only marginally from average wages, an edge not enjoyed by countries in Southeast Asia or other developing nations in the world. In places like Beijing and Shanghai, many college students go straight to work for foreign-funded enterprises upon graduation. While they earn higher salaries than people who work in domestic enterprises and government departments, they are a bargain relative to their contributions to their employers and when compared with the international level. Furthermore, Taiwan and Hong Kong investment in the coastal region has nurtured an army of workers and managerial personnel of a fairly high caliber. Their skills satisfy the demands of Japanese companies.

Fifth, the first batch of large companies to enter China has encouraged others to join them by reaping handsome profits. Among the several hundred large-scale foreign-funded enterprises in China today are several which were the first to do business in China and are now turning in a profit. In Tianjin, for instance, joint ventures set up by Otis Elevator Company, Shike Company of Philadelphia, General Food, and Coca-Cola accounted for 25 percent of the total output value of foreign-funded enterprises in that city and 50 percent of their combined profits in 1992. Drawn by these success stories, other companies are scrambling to make their way into China.

The success enjoyed by Volkswagen and other German car-makers has forced Japanese automobile companies to change their China strategy. Investments by Korean electrical companies have also put Japanese companies under tremendous pressure. Competition has prompted more and more multinational corporations, including shrewd Japanese companies, to hasten their pace of investing in China for fear of losing this massive market.

These reasons have caused Japan to modify its attitude toward investing in China in recent times. Japanese investment has picked up steam since 1992. The amount of Japanese investment approved doubled to \$1.1 billion in 1991-1992 and doubled again in 1993 over the preceding year. That same year the yen appreciated again. According to a survey by Japan's Export-Import Bank on 338 enterprises in the manufacturing industry, almost 50 percent considered Mainland China the best investment location and 90 percent planned to increase the share of their investment in China. China was the No 1 choice of Japan's manufacturing industry as investment location in both 1993 and 1994. The following table gives us a basic idea of how 625 Japanese companies view investing in China.

Table 2. Japanese Companies' Foreign Investment Preferences (unit: %)

Industry	China	Four Mini- Dragons in East Asia	ASEAN
All industries	58.1	15.7	30.9
Food	72.0	20.0	20.0
Textiles	72.2	11.1	-
Chemicals	45.5	18.2	43.9
Rubber products	62.5	12.5	-
Iron and steel	70.6	23.5	52.9
Machinery	47.9	25.4	26.8
Electronics and electrical	51.3	12.5	28.8
Precision instruments	65.1	16.2	25.6

Source: JETRO survey report, July 1993

Japanese Consumers Starting To Accept Chinese Products

The acceleration of Japanese investment in China has changed bilateral economic and trade relations. In the past, the emphasis in bilateral economic relations was on trade as Japanese exports poured into China. When Japanese investment in China increasing sharply in recent years, Japanese-funded enterprises in China are exporting to Japan a rising proportion of their output, thus boosting Chinese exports to Japan. In 1992-1994, at a time when Japan languished in recession, low-cost Chinese products were particularly welcome among Japanese consumers. In 1993, Chinese textile products and toys already accounted for over half of total Japanese

imports. Garments produced by Sino-Japanese joint ventures in the Shanghai area meet the stringent standards of the Japanese market in both quality and style and are far more competitive than similar products from Hong Kong and South Korea. Labor-intensive products from mainland China are gradually edging out their counterparts from Hong Kong, South Korea, and Taiwan on the Japanese market. There is now widespread acceptance of Chinese products among Japanese consumers. Meanwhile, with the Chinese market in mind, Japan has also been investing in industries applying relatively advanced technology, notably the chemical, electronic, and machinery industries. Matsushita Electrical Corporation, for instance, opened five joint ventures in Beijing, Suzhou, and Guangzhou all within the month of May 1994 to make a host of products including telephone exchanges, sphygmomanometers, and electron wiring tools. The rapidly growing Sino-Japanese economic and trade cooperation is different from the existing three-sided trade relationship among Japan, Hong Kong and Taiwan, and the United States. The former no longer targets the United States as the principal export market; instead all three countries—Japan, the United States, and China—are major markets for the output of cooperative projects. With the Japanese market and the still-developing mainland market to fall back on, Sino-Japanese cooperation has virtually distanced itself economically from the United States. The "flying geese" economic relationship that used to exist among the United States, Japan, the four mini-dragons, Southeast Asia, and Mainland China, some people say, has been replaced by a "billiard ball" model. In other words, the sophisticated technology of developed nations is now finding its way into all nations without having to go through the four mini-dragons as in the past. Moreover, exports are no longer exclusively destined for the United States, as was the case previously, but are entering the domestic markets of Japan, China, East Asia, as well as the United States. Factors other than the United States are playing a more and more important role.

Economic cooperation between the mainland and Japan has a direct impact on the Chinese economic community. Hong Kong's investment in the manufacturing sector on the mainland is concentrated at the lower end of the market, so there is little conflict with Japan there. The ties between Hong Kong's financial community and the mainland are not something Japan can replace. In fact many Japanese banks do business in China through Hong Kong, with some locating their China regional headquarters in Hong Kong itself. For these reasons, the impact of Sino-Japanese cooperation on Hong Kong would be quite modest. Not so for Taiwan, however. A majority of Taiwan's labor-intensive industries have now relocated to the mainland, the only exceptions being the still-competitive electronic (particularly computer) and chemical industries, precisely the very industries where Japan has been investing heavily on the mainland. Whether in capital or technology, Taiwan enterprises are

no match for Japanese-funded enterprises. Once it reaches a certain scale, the marriage between Japanese capital and Mainland China's manpower will constitute a threat to Taiwan's manufacturing industry. How to fashion a division of labor and a relationship of cooperation between the two sides of the strait soon is of critical importance not only to Taiwan enterprises, but also to its economic future. Moreover, hammering out a division of labor in industry between the two sides and building bi-coastal Greater China enterprises that operate on a large scale and boast substantial economic muscle are just as essential to Mainland China. That will be analyzed in the next issue.

Planning Commission Official on Foreign Investment Use

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[Article by Mu Haiping (1970 3189 1627), Economic Research Center, State Planning Commission: "Various Problems in the Country's Use of Foreign Capital and Ways To Address Them"]

[FBIS Translated Excerpt] 1. Strategic Orientation for the Use of Foreign Capital

The growth methods, institutional background, and pattern of opening to the outside world in the development of China's national economy have undergone profound changes in recent years by comparison with the 1980s. The entire strategy is facing revamped objective requirements. Concomitantly, China's use of foreign capital has also entered a period of rapid development. China's actual use of foreign commercial investment (\$25.8 billion) accounted for approximately 10 percent of investment in fixed assets and for approximately 25 percent of the foreign commercial investment that developing countries attracted. Both were all-time highs. The tremendous increase in foreign commercial investment shows that the country's economic development prospects are well regarded abroad, and that the attractiveness of China's domestic market has markedly improved. Certainly, this is extremely important for China's making the most of opportunities, and making full use of international conditions to maintain sustained, rapid, and healthy growth of its national economy. Likewise, however, a point that merits attention is that now that the economy is developing rapidly and large amounts of foreign capital are entering the country, greater emphasis must be placed on combining the short-term partial effects of foreign capital with the long-term, overall goals of national economic development. The two must complement each other so as to avoid paying a future price of heavy future readjustments stemming from our being driven by short-term benefit today.

Actually, China has still not completely parted from the basic pattern of the 1980s in the use of foreign capital of

reliance on policy preferences, and regional tilts to gain quantitative expansion. Despite the inauguration of numerous policy readjustment measures, few results are visible. If one says that the use of foreign capital during the country's economic takeoff period more greatly demonstrated the inevitability and necessity of increasing the amount of foreign capital, then during this present period of a new round of rapid economic development characterized primarily by structural readjustments and improvement of returns, the strategic emphasis in the use of foreign capital must be readjusted, and the basic orientation of these readjustments must be as follows: adherence to the principles of encouraging equal competition, tilting in favor of certain industries, and all-around improvement of returns as development of the socialist market economy and meshing with international markets require, making the use of foreign capital a part of the goal system for long-term economic development.

(1) The Principle of Equal Competition. Establishment of the socialist market economy system and meshing with international markets requires establishment of equal competition procedures for domestic markets. Naturally, this includes foreign-owned concerns. The various preferential policies that China presently applies to the investment of foreign firms frequently create conditions for unfair competition. Though these policies (preferential taxation policies, for example) hold definite attraction for foreign capital, they may easily lead to the importation of low grade capital that fuels speculative tendencies. The high grade capital of international transnational corporations, in conjunction with the national treatment, the investment climate, and the market prospects that are associated with long-term development in China hold the greatest attraction. In addition, policy preferences alone put Chinese-owned concerns at a competitive disadvantage. They actually have the negative effect of encouraging capital to come to China to benefit from policies rather than for China to benefit from technology. This easily leads to a distortion of the behavior of joint ventures and a loss of benefits to the country. In the foregoing sense, a change from policy preferences to the encouragement of equal competition is actually encouragement to the influx of high grade capital to enable joint ventures to focus on long-range development, thereby driving enterprises to strive for technological progress, and optimum administration and management.

(2) The Industrial Tilt Principle This means adoption of a series of encouragements and limitations, as upgrading of the industrial structure requires, to achieve balance between opening up the country to foreign investment and appropriate protection of the domestic market. During the country's post-development stage, use of foreign capital to close the domestic capital and technology gap, in conjunction with protection of domestic markets and nurture of the development of indigenous industry can only be a dynamic combination process of tilted development. While taking both purposes into

account, different emphasis must be given as different kinds of development require. It must be realized that foreign capital per se is not only benefit oriented, but it enhances the comparative advantages of the places in which it is invested. Ignoring industrial policy restraints for a long time can interfere with the upgrading of the industrial structure. Therefore, during the present stage, we have changed from a regional slant to an industrial slant in the use of foreign capital. The real significance of this is to attain balanced development between basic industrial sectors (low profit sectors such as agriculture and infrastructure), and leading industrial sectors (high profit sectors such as machinery and electrical equipment, motor vehicles, and telecommunications industries) from the use of foreign capital in order to increase independence in the development of indigenous industries, and steadily raise their level of technology.

(3) Principle of Improving Returns. The overall effect on the national economy of the use of foreign capital to develop three kinds of partially or wholly foreign-owned enterprises is many sided. The most important aspects are financial benefits, technological benefits, market benefits, employment benefits, and social benefits. One might say that China has scored numerous achievements from the use of foreign capital, particularly in reducing the shortage of funds for national construction, in employing manpower, in earning foreign exchange from exports, and in promoting the rapid economic development of certain areas. Nevertheless, we still cannot say that China has mastered very well the principles for deriving benefits from the use of foreign capital. In particular, a very large gap exists between the price that is paid for the use of foreign capital and the benefits that should be obtained. Specifically, China has a very long way to go in tapping the full potential that can be realized in tax revenues and technology, improvement of management, and improvement of manpower caliber. One thing reflected in the strategy for using foreign capital is the correlation between amount of development and benefits from development. Bearing this in mind, in the process of further expanding the use of foreign capital in the future, we must pay extremely close attention to macroeconomic benefits, and use these benefits as the main criterion for judging the success of the policy of using foreign capital.

2. Conditions for Effective Use of Foreign Capital.

Maintenance of growth in the use of foreign capital, and gradually expanding the returns obtained from it requires careful analysis and judgment of the conditions in China that attract this capital, and then making the necessary weighting and preparation of policies.

(1) Manpower Conditions. The abundance and low cost of manpower has long been a factor attracting foreign capital to China. The combination of foreign capital and manpower not only can effectively relieve domestic employment pressure, but can also help improve the quality of the country's manpower. Two points must be

borne in mind when playing the manpower card: One is close attention to the correlation in policy between increasing manpower employment and structural upgrading. In manufacturing industries, in particular, a dual strategy must be pursued of developing labor-intensive products to increase both employment and exports, and to expand the basis for accumulations, and developing capital and technology-intensive products to spur structural upgrading for the shaping of a benign cycle mechanism. Second is attention to improvement of manpower caliber for gradual expansion of the amount of labor and technology-intensive products.

(2) *Resources Conditions.* As the size of China's economy steadily increases, the limitations of available resources on economic growth of and the country's ability to develop them for use will increase as well. Thus, the use of cheap resources to develop processing industries will no longer be an advantage for China in attracting foreign capital. Conversely, we must encourage the use of foreign capital for direct development of existing resources as the industrial tilt principle requires in order to increase domestic basic raw and processed materials supply capabilities. We must channel direct foreign capital investment away from concentration primarily on downstream processing industries to upstream raw and processed materials industries. This will help increase China's resources development capabilities, not only expanding the supply of multi-variety and multi-functional resources to take the place of imports, but also lowering export costs, while simultaneously encouraging the development of inland regions.

(3) *Policy Conditions.* Preferential policies based on regional slants played an early role in China's use of foreign capital, but as the demonstrated benefits of policies widened, continued tax reductions or exemptions and transfers of profits no longer met requirements. Readjustments had to be made in the basics and the methods of policy preferences. Because past preferential policies had the negative effect of one region trying to keep up with others, and one enterprise competing unequally with another, the discriminatory character of policies must be corrected quickly. Changes must be made to the use of industrial preferences and national treatment gradually applied to foreign-owned firms to create a long-term, stable policy environment for foreign commercial investment. In addition, we must gradually change from reliance on policy preferences to policy service. We must use China's normal interests as a basis for ensuring foreign-owned firms business needs in many regards such as taxation, credit, raw and processed materials, infrastructure, and information, thereby increasing their confidence in long-term investment.

(4) *Market Conditions.* The fine market prospects that high speed economic growth has engendered are a basic strength for China's present expanded importation of capital. They must be applied and used to the full. At a time when the role of manpower, resources, and preferential policies in attracting foreign capital is decreasing,

in particular, how to play the "market card" well, using gradual opening up of the domestic investment field to attract more and better foreign capital and technology should become the key in our strategy for using foreign capital. Opening up of markets will, without doubt, provide powerful stimulus to greater attraction of foreign capital; however, failure to take into account needed control and guidance in specific investment fields can hurt the development of domestic industry and enterprises, thus producing a negative effect.

Industrial Policy for the Use of Foreign Capital

Prudent channeling of foreign capital is the key to obtaining full benefit from it. Every country pays close attention to this. The further opening of markets to foreign capital, and according national treatment to foreign capital does not mean weakening the role of industrial policies. Instead, it requires a balance between the too, truly applying the principle of "ensuring the success of key production and construction projects while giving due consideration to ordinary ones."

Formerly China concentrated the use of foreign capital in the industrial field, particularly in the processing industry sector. The remainder was concentrated mostly in construction and real estate. The two accounted for more than 93 percent of total foreign capital taken in. Together, the primary industry and tertiary industries accounted for less than 7 percent of investment. It must be admitted that the use of foreign capital primarily in industry fits in with the country's economic development needs at the present stage. This is also basically consistent with the international trend in the use of foreign capital in developing countries. In this regard, an untapped potential remains in Chinese industry, particularly in manufacturing industries. However, as the use of foreign capital increases, a further widening of the fields in which foreign capital is used is extremely necessary. Without doubt, the main fields should be agriculture, infrastructure and basic industries, and tertiary industries such as finance and banking, trade, services, culture, and education. This would help channel foreign capital in purposeful directions, and spur upgrading of the industrial structure. Generally speaking, the investment of foreign capital improves existing strengths. At the present stage of China's economic development, this is manifested in an expansion of labor-intensive industries. If this practice continues, the foreign capital input structure is bound to be affected. It will intensify conflicts in readjustment of the industrial structure. However, opening up the investment field might also encounter problems in two regards. First, investment of foreign capital in agriculture, infrastructure, and basic industries is fairly risky. Some encouragements will have to be provided to increase their attractiveness to foreign capital. Second, mainstream sectors in the processing industry field and tertiary industries hold rather strong attraction for foreign capital, but the risks that the Chinese side bears in such ventures is fairly great; thus, some control measures are

needed in order to ensure effectively the development of indigenous industries and stability of the national economy. Therefore, the present method of macroeconomic control of foreign capital by region and scale must be gradually changed. Instead, a policy of macroeconomic control by industry and product must be adopted. This is basic to fulfillment of foreign capitalized industrial policy.

There are two problems in this regard that must be carefully handled. The first is the use of foreign capital in high profit sectors, notably key industries. The international competitiveness of this industrial sector is presently rather low, but its domestic market prospects are fairly good, and it also receives government policy protection. In the use of foreign capital, the correlation between the use of loans and the use of direct investment must be given full consideration. Given current conditions, the percentage of foreign credit and technology imports for key industries can be increased somewhat. Since these industries make high profits, their repayment of debts can be assured. Moreover, this would also help the country concentrate its energies on improving its own technology development capabilities and realizing the economies of scale. The use of foreign business direct investment requires control, mostly control of project size and the level of technology. China must also control stock ownership.

The second problem is the opening of markets and according national treatment to foreign capital. Industrial policy must be used to coordinate the channeling of foreign capital with the opening of markets and according national treatment to foreign capital. Industrial policy aims mostly at encouraging investment of foreign capital in sectors that benefit national economic development, particularly newly emerging industrial sectors, and sectors that can improve China's international balance of payments and expand exports. It limits investment in domestic industries that already have a certain foundation for development that need protection. It prohibits investment in sectors affecting national security as well as those that control the country's economic lifelines. Within these limits, maximum decontrol of the investment market and according national treatment for foreign capital may be considered. This means that equal treatment without discrimination of foreign capital and domestic capital should have strings attached. For fields in which the investment of foreign capital is limited, the percentage of shareholdings may be limited, a time limit may be set on investment, or preferential chartering may be employed. [passage omitted]

Supervision and Control of Foreign-owned Concerns

The number of foreign-owned concerns in China has grown very rapidly in recent years, and the average size of foreign-owned projects has also risen. Under these circumstances, many areas have too much emphasized "openness" and "attraction" to the neglect of "supervision" and "control." A swarm of joint venture projects

has resulted, but after-the-fact control has not been coordinated. This lack of control has been manifested in the following ways: First, agreements are reached about the investment of large sums of foreign capital, but the actual rate of investment, and the actual rate at which projects go into operation is very low. Our survey showed a less than 50 percent funds placement rate in Beijing, Fujian, and Zhejiang, and the number of on-time openings was lower than 30 percent. Second is indiscriminate land takeovers and uneconomical scale problems. In order to attract investment of foreign capital, some jurisdictions treat land as a bargaining chip, supplying it at low cost. The price of developed land is really very low, and these jurisdictions take over large amounts of cultivated land. Consequently the interests of local peasants are not very well protected. Moreover, some small scale foreign business investments requiring intensive investment resell the real estate at a profit making a windfall thereby. Third is serious tax evasion and transfers of profits. Currently, between 30 and 50 percent of foreign-owned concerns are losing money, some of them for government policy reasons or inept operation. However, a substantial number of them claim losses when they are actually making profits. Their main ways of doing this are off-the-books costs, falsely increasing costs, importing at high prices and exporting at low prices, deferring the year in which they take profits, and shifting profits into the operation of new concerns. Their purpose is to evade taxation and shift profits.

In view of the problems everywhere in controlling foreign-owned firms, the central government should apply a combination of economic, legal, and administrative measures to tighten supervision and guidance, gradually diminishing the negative situation that results from improper supervision.

(1) Need For Strict Examination of Foreign-owned Projects. Only after confirmation that foreign capital is available, that the contemplated project is feasible, and that the project is in keeping with national industrial policy may approval be granted to proceed with the project.

(2) Need To Increase Control of Joint Venture and Cooperative Enterprise Importation of Needed Equipment. Priority should be given to procurement inside China. If items must be imported from abroad, both parties to the venture should purchase them jointly. Detailed equipment procurement contracts must be separately signed for shareholding of foreign-owned equipment. Commercial inspection units must check on this.

(3) Foreign-owned concern examination and approval procedures must be simplified and standardized to improve work efficiency. All possible must be done to shorten the period between a joint venture application and project approval so that both the Chinese and foreign parties can begin the actual operating process as time as the contract requires. In addition, better control

must be exercised over the capital subscription rate, the project start-up rate, and the contract-honoring rate. Foreign-owned enterprises that go beyond the date for beginning operation shall have their business licenses revoked according to law.

(4) *Greater audit control of tax revenues from foreign sources.* Further clarification must be made that tax preferences for foreign-owned concerns do not extend to a relaxation of audit controls that allows foreign concerns to garner illegal returns. To solve the problem of some foreign-owned concerns financial systems being in a mess, institution of a set profit rate and the amount of taxes that must be collected on it might be considered to get around the problem of falsely figured cost expenses. In addition, a better job must be done of collecting and disseminating international market information, and a price information data bank for main commodities should be established as a basis for dealing with foreign capitalist tax evasion and profit transfers.

(5) *Need to improve the professional training of Chinese managers in joint ventures to increase their professional caliber for more effective negotiation and cooperation with the foreign partners.* In addition, more must be done to build labor union organizations in joint ventures to ensure the legal rights and interests of Chinese employees.

6. On the Use of Foreign Capital and Transnational Business Problems

The use of foreign capital in a national economy mostly means the importation of foreign capital. This shows up in the international balance of payments as an inflow of capital. As with foreign trade, the flow of capital in a single direction for a long period cannot be maintained. Capital cannot just come in and not go out, or go out and not come in. The level of a country's economic development determines the correlation between capital inflow and outflow. In particular, the level of development of a country's foreign trade and the internationalization of the national economy determines the correlation between capital inflow and outflow. If one goes beyond the scope of a single country, the use of foreign capital and transnational business becomes not simply a capital inflow and outflow issue but increasingly two sides of the same issue. The use of foreign capital includes activities in both domestic and international markets. The coordination of internal funds is also done in the two markets. Boundary lines are not so well defined here. A comprehensive analysis that combines the use of foreign capital and transnational business reflects the modern international trend just as an analysis of trade and investment does. This is also extremely necessary for China's opening to the outside world trend of development.

In modern economic life, the international division of labor system in which transnational corporations' direct investment is paramount is replacing the traditional international division of labor system in which trade was paramount. Development of transnational businesses, a

flow of key production elements in both directions, and active participation in the new type international division of labor are necessary to economic modernization.

The main goal in China's use of foreign capital is to promote the development of trade, and the realistic choice in the development of trade is to use relative strengths to make relative returns. However, in terms of long-term development needs, a solid foundation for trade benefits must be founded on constant readjustments of relative strengths. Currently, the imports and exports of China's foreign-owned concerns account for nearly one-third of all the country's imports and exports. This is a remarkable achievement. However, it goes without saying that the structural level of China's trade is still relatively low, and trade conditions have not improved fundamentally. In a situation of steady expansion of trade volume, China must rely more on price competition. It lacks the reserve strength needed to expand exports. To meet the real needs for developing trade, China must change its passive acceptance of the international resources flow situation in international division of labor competition. China must change to a dynamic strategy of developing transnational businesses. Support for further expansion of the scale of foreign trade and further upgrading of the make-up of foreign trade are necessary to transient adjustment of the country's development of foreign trade.

In addition, it must be realized that the absence of monitoring and balancing of the benefits to foreign firms from direct investment cannot be directly correlated to the development of transnational business. As a form of economic behavior, foreign firm investment must produce an inflow and an outflow of benefits. If only the China end of this flow is taken in hand, balancing internal and external benefits will be very difficult. Because China currently lacks needed transnational business techniques and domestic policies are not fully developed, foreign firms' use of transfer pricing such as importing at high prices and exporting at low prices, and false reporting of profits as losses in an effort to avoid taxation cause an outflow of benefits. Though the total amount cannot be known, the figure must be substantial. Problems in the use of foreign firm direct investment stem from many reasons, an important one of which is our poor understanding of the international market, or understanding it but not having sufficient means to control it. Practice has made us realize that opening to the outside world means that we not only welcome foreign firm investment in China, but that we must also go outside China to invest directly abroad, and to operate joint ventures and sole proprietorships in order to fundamentally improve the country's ability to control international markets, enabling us to use foreign capital markets, methods, and substance in further diversification, and thereby gain better economic returns.

Transnational business is a necessary choice for China's in-depth development of foreign trade and use of foreign capital. It is also an important part of the complete

meshing with international markets now that China's economy is open to the outside world and China is taking part in the international division of labor. We must not simply linger at understanding the role of transnational business in the realm of external economic development (although this realm is very important and of direct bearing), but also scientifically orient China's development of transnational businesses from the strategic high plane of the country's national economic development and world economic trends.

The main significance of China's development of transnational businesses in terms of low-level, near term objectives is as follows:

(1) *To obtain resources that are in short supply in China.* The term short supply as used here includes two levels of meaning. The first is resources whose availability cannot satisfy economic development needs. The second is resources whose domestic production costs are high in comparison with their international market price. As high speed development of China's economy continues, the limitations of domestic market resources will intensify. Therefore, greater production of resources obtainable on the international market and direct investment in trade to maintain a steady supply of resources is extremely necessary.

(2) *Establishment of an international market marketing system.* This is a main avenue whereby investment spurs market development, the basic goal being the development of information channels, the building of a vast trade network, the development of new markets, increasing the number of markets as means of reducing and spreading risks, dealing with trade barriers, and stimulating the export of associated products. In this sense, the development of transnational businesses will convert "external" trade into "international" trade, and "passive" trade into "active" trade.

(3) *Gaining advanced technology and management experience.* The trend toward internationalization of scientific and technical advances is extremely marked today, yet the technology that China is able to import is extremely limited. The development of transnational businesses, and taking part in scientific and technical cooperation in international markets is the best way to obtain technology. This includes not only obtaining technology itself, but also improving ability to obtain technology. This also apply to managing the economy. The management brought into the country in using foreign capital is frequently deformed management. Only by using capital in international markets can we truly gain the management experience that meets international standards.

(4) *Increasing ability to compete in the international division of labor.* International experience shows that in both developed countries and newly industrializing countries alike, once the economy has been opened to the outside world, and the country orients toward international markets, at a certain period of development

further internationalization requires commensurate development of transnational business. When domestic market key production element costs change, and comparative international advantage changes, the development of international businesses become a basic means for promoting upgrading of the open economy structure, and improving ability to compete in the international division of labor.

Labor

Cause Analysis of City Labor Surplus

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[Article by Xie Mifeng (6200 5778 5762): "City Labor Surplus: Causes of Surplus and Channels for Diverting Surplus"]

[FBIS Translated Text] Since reform and opening, rural labor surplus has been a problem which weighed heavily in the minds of leading officials at all levels. Knowledgeable experts in China consider solutions to this problem the "[social] engineering [challenge] of the century." Admittedly, if the rural labor surplus problem is not handled well, it will be the cause of instability in society. But with continued deepening of reform and opening and the gradual establishment of a market-oriented economy, the problem of city labor surplus, heretofore hidden like the tip of an iceberg, has gradually come to fore. With labor surplus in the rural areas, people can at least cultivate their three mu of land to make a living, but with labor surplus in the cities, people are truly unemployed. How big is the labor surplus in the cities? By rough estimates, the 4.2 million people who are unemployed, plus 30 percent of personnel in the large and medium-size state-run enterprises who are considered redundant, would exceed 30 million; but when redundant personnel in all collectively run enterprises and organizational units are counted, the total of labor surplus would certainly exceed 40 million. Such a huge army of unemployed will sooner or later affect the national economy like tidal waves striking at the dike; if not handled properly, this economic problem will evolve and become a political problem with unthinkable consequences. This article discusses my views of the causes of labor surplus in the cities and possible channels for redirecting the surplus, and I invite comments and discussion.

The causes of labor surplus are extremely complex, some are historical in origin, but others are current; some are artificial, but others are objectively real. In summary, the main causes are as follows:

1. Policy-Dictated Surplus

Under the influence of the old Soviet model, China in the past pursued a full-employment policy, and used it to demonstrate that people are sovereign and as an important symbol of the superiority of the socialist system.

Guided by this policy, enterprises relegated economic benefits to a secondary role while they strived to provide social benefits; disregarding their needs for or capacities to utilize personnel, enterprises considered employing young workers as a political mission. The situation reached the point where two, three or more persons were assigned to perform functions which one could handle, and the situation of having more people than work and people making up work was commonplace; but with increasingly larger personnel expenditures, enterprises' profit margin shrank proportionately. In the end, enterprises had to rely on bank loans to meet payrolls, default on obligations and sell off fixed assets. Some enterprises after paying the workers for one month would not know how to meet the payrolls for the next; their plans to carry out technological reform, import technology and facilities, or develop new products were all but empty talks. There was no way to turn the situation around as machinery and equipment became antiquated, product quality declined, and market competitive ability weakened. According to statistics from relevant departments, of the 108.30 million people employed in 1.925 million enterprises owned by the people, the proportion of redundant personnel is as high as 30 percent; when redundant personnel of collectively run enterprises and workers of bankrupt enterprises are added, the total is a frightening astronomical figure! As the socialist market economy develops, this heavy personnel burden will certainly be dealt in due course. But how to deal with the problem is the critical issue.

China is a large and populous country; because family planning work got started late, 800 million more people were born after the People's Republic was established; in 1962-1975 alone, 360 million more people were born. In this period, although authorities at all levels carried out family planning work as a matter of national policy and the trend of high birth rates was checked, but no solution was found to deal with the pressure on employment created by people born in the 1970s; and given the new developments of peasants now seeking various nonfarm occupations, 7 million more people need to be taken care of annually. Further, as most of this surplus population are concentrated in the economically under-developed western part of China, they pose a serious challenge to the region as well as the country as a whole.

Establishing a modern enterprise system and transforming the enterprise operating mechanism are prerequisites for enterprises to function in a market economy; yet transforming the role and function of government, and reducing government control but expanding its services are also crucial steps to take as enterprises enter into a market economy. Judging by the current state of the government's administrative and operating mechanisms, the nondifferentiation in government functions and responsibilities and administrative overlapping are quite serious, overstaffed organizations with more personnel than work are common, and these greatly affect administrative efficiency. A market economy, on the other hand, requires the elimination of excess personnel

and streamlining of functions. Since reform and opening, several attempts have been made to reform the government bureaucracy with slim results. Improved efficiency through downsizing the staff and streamlining functions is the future trend. The scope of this is comparable to cutting no less than a million men from the armed forces.

2. Industry-Created Labor Surplus

Industry-created surplus has two major aspects: one is the surplus of personnel, the other is the surplus of productive capability.

Personnel surplus is an abnormal type of surplus, it is the result of interaction between management and bad labor [practices]. There are people today who, relying on power available to them or going through various channels, would pick and choose among the trades, professions and enterprises looking for good, respectable and well paying jobs. The tendency is that people try to get away from difficult, physically demanding and dirty work and take on easy, comfortable and clean occupations, moving from the first line of production to the second. The result is a situation in which work goes begging while people are unemployed. Urban people are not willing to endure any hardships, and charcoal making, construction and mining industries have difficulties employing workers from the cities. To continue operation, these industries cannot help but recruit workers from among the peasants who are used to hardships. In the mining industry, the most physically demanding and dangerous work is done completely by peasant workers. In the labor force of buildings and roads construction industries, the majority of workers are also peasants.

Surplus production capacities are the result of duplications. Based on the statistics, cotton and woolen textile industries have a 33 percent surplus capacity, color television 64 percent, refrigerators 50 percent, washing machines 64 percent, and air-conditioners 64 percent. In addition, petroleum refining and aluminum processing industries also have serious surplus capacities. Where there is surplus production capacity, there is inevitably labor surplus.

3. Surplus Resulting From Economic Displacement

Since reform and opening, the government has adopted a series of preferential policies to promote development of various components of the economy, and these components consequently have been able to develop rapidly to the point of seriously challenging the collectively owned economy, particularly the primacy of the large and medium-size state-owned enterprises.

One of these challenges comes from the rural enterprises. According to figures released by the State Statistics Bureau, the total output value of rural enterprise at the village level and above in 1993 was 3.5074 trillion yuan, a 23.6 percent increase over the previous year; while

state-owned enterprises grew 8.9 percent and collectively owned ones 39.8 percent, rural enterprises as part of the latter grew 57.6 percent. In 1993, China's rural enterprises produced a total output value of 2.9 trillion yuan and employed 112 million people; whether in terms of total output value or the number of people employed, rural enterprises have become an important pillar of China's economy especially in the Southeastern coastal areas, and accounted for two-thirds of the total. Out of the many rural enterprises, a large number of brand-name products have taken a large share of the domestic market; popular brand names such as "Rongsheng," "Wanjiale," "Meide," etc., are all products of rural enterprises. These products have taken a large share of the market from state-run enterprises, and their market share appears to be increasing irreversibly.

Another challenge comes from the "foreign-funded" enterprises. The government has prescribed a series of preferential policies for these enterprises in order to make up for domestic capital shortage, and to import advanced managerial experiences and technological facilities. Through a series of laws and regulations, the "foreign-funded" enterprises have been enabled to develop by leaps and bounds. Of the total \$195.62 billion in exports and imports in 1993, exports and imports by the "foreign-funded" enterprises accounted for \$67.07 billion, or 34.3 percent of the total. In the past decade and more, foreign investments totalled \$60.04 billion. In China, foreign investments in such enterprises as light chemical, toys, domestic electronics, communications, etc., have become a force that cannot be overlooked, they have occupied a considerable share of the market and showed a strong tendency of expanding into other sectors.

4. Surplus Resulting From Personnel Pressure

Personnel pressure is often created by underage workers seeking employment and overage retirees seeking reemployment. These people make up 10 percent of the labor supply and are increasing proportionally.

There are three reasons why retirees seek reemployment. The first is technological. A majority of these retirees have worked in their various jobs for a lifetime; they are technically proficient, well experienced and motivated to work "without some one cracking the whip." Second, the complexity of relationships. Many of these retirees, having worked hard all their lives in their enterprises, know the hierarchy up and down and have connections all around; they are highly efficient and some of them have become indispensable "project point men." Third, the modest salary expectation. Generally, reemployed annuitants need only to be suitably compensated, which save considerable expenditure compared to newly hired workers.

Employment of underage workers is mainly found in light textile, chemical and clothing manufacturing industries. Generally, they do what they are told, work for low wages, are willing to endure hardship and easily managed.

As the labor surplus problem becomes increasingly critical, various unstable social factors are beginning to come to the fore. The following are my own views on how to solve these problems:

1. Improve the Climate of Opinion

Public opinion provides guide to action. We have until now carried out a full employment policy which has resulted in a heavy burden for the government. With the establishment of a market economy and employers freely choosing their workers and streamlining their operations, there will unavoidably be people who are unemployed or looking for work. Psychologically and in terms of their behavior, we need to help people recognize and accept this fact; we therefore need to have correct public opinion guidelines to properly lead people to change their idea about employment and not feel lost or discouraged.

First, the concept of multi-channel employment should be vigorously publicized. Information campaigns should inform people of the current national economic situation, state of businesses, population trend and its effects on employment. People should know the real difficulties confronting the country and enterprises; they should be encouraged to seek different types of work through multiple channels, to implement an employment policy based on the government, collectives and individuals sharing responsibilities, and to heighten their sense of responsibility that "individuals are responsible for the rise and fall of their country." If the difficulties are explained and the direction of our efforts made clear, people can understand, accept and make allowances for the difficulties the country is facing.

Second, the idea that looking and waiting for employment is acceptable should be widely publicized. People should be made to understand that waiting for work or being unemployed do not mean decadence and decline or anything unique to capitalism but are the inevitable results of economic development and the growth of a market economy. Market economy means economic competition and survival of the fit, and an appropriate percentage of unemployment can heighten among employees an awareness of the hardships and risks [of unemployment], a sense of their own work responsibilities and the need to innovate; it will foster among people employed a respect for work and eliminate the phenomenon of relying only on one's boss and not taking any responsibility personally. At the same time, based on the needs of the enterprises, unemployment will continually provide fresh blood, promote business innovation, and serve to provide a "reservoir."

2. Effectively Implement Training

First, training should be based on societal needs. This type of training should be targeted mainly at people before they are employed. Every province, region, and municipality should develop targeted training programs

based on China's enterprise policy and tailored to specific conditions of the various localities. This type of training must set a high goal, impose strict demands and channel the trainees into serving the society.

Second, training should be geared to specific occupations. This type of training should be clearly targeted—at the unemployed. The causes of unemployment in the work force have many facets, but the lack of technical skills is a root cause. Judging by the technological level of the personnel and structure in some of the businesses today, the technical skills of a majority of middle-age personnel were acquired through apprenticeship and not regular education; master technicians passed their skills on to their apprentices who in turn trained the next generation of apprentices and the result is that the technology they know and use today has the word "dated" stamped on it. Antiquated technology cannot possibly meet the requirements of modern enterprises that are ever-changing. Therefore, every locality should consider the needs of its unemployed and engage specialized technical personnel to provide intensive short-term training; training "of short duration and intensive content" will equip workers with new skills so they can take up new positions as soon as possible.

3. Strengthen Establishment of an Insurance System

An inadequate social insurance system is a "tiger blocking the road" to development of a market economy. Because of it, people are not assured of their livelihood when they become unemployed, and when not every one is employed, only "the younger people but not the old get taken care of." If competition for employment increases, the financial burden [of the unemployed] on the government will be unbearably heavy; if the government cannot guarantee a basic livelihood for unemployed citizens, serious problems will arise. Therefore, a well-established social insurance system is of great significance in terms of ensuring social stability and the establishment of a market-oriented economic system.

Admittedly, establishing a social insurance system has a high degree of difficulties, but by firmly maintaining the unity of responsibility, authority and benefit, sharing the burden among the government, enterprise units and individuals, combining voluntary and compulsory measures, such a system can be established in a step-by-step and practical manner. In this respect, Wenzhou City has set up a good precedent. Beginning in 1991, Wenzhou put into effect a unified social insurance system in the city: all employed people in Wenzhou—whether they are employed in private enterprises, joint stockholding companies, township and village enterprises, local district and collective entities, or by Chinese partners of foreign-funded enterprises, or in privately run commercial and industrial businesses—all participate in a social old-age pension system and all will receive equal benefits. Because of this benefit, an army of some 200,000 buyers and sellers operate out of Wenzhou and travel throughout the country, and close to 400,000 people have migrated to Wenzhou to seek employment.

4. Standardize Labor Market

Modern economic development requires that labor be considered a special marketable commodity; this commodity is needed and should be discussed in the context of deepening reform and enterprises transforming their operating mechanism.

To ensure continued intensification of reform and the gradual establishment of a market-oriented economic system, government authorities at all levels must emphasize the establishment of a standardized, multi-faceted and multi-level labor market. There should be a national labor market as well as regional markets; there should be centers to provide general employment services, but also a market for the high-level technological personnel. A market economy requires that the majority of people compete for employment, and the principle of employment should be changed from centrally controlled personnel assignment to employment through competition, i.e. changing from "sharing the rice bowl" to "competing for the rice bowl." These approaches are particularly significant when taken concurrently with developing and improving a labor market. At present, in the South-eastern coastal areas, numerous officially or privately sponsored employment placement centers have been set up, but they only serve as middlemen to provide introductions and leads, they are not standardized, and many of them are in the business for profit. They are by no means doing enough in terms of providing the now-lacking but necessary interchange between capital and labor, and of protecting the legitimate interests and benefits of employees and workers. Therefore, we should quickly strengthen the labor supervision work and ensure that legitimate rights and benefits of both management and labor are not endangered or infringed upon.

5. Vigorously Implement Labor Export

China has an amply endowed labor resource, but for a long period of time, export of labor has progressed slowly; to solve the problem of labor surplus, labor export is an effective short-cut.

First, set up [an effective system to] export labor abroad. At present, China's labor export capacity is only 1 percent of the world's total, and numerically, China's labor export equals to 1.5 percent of the world's total. Although there have been considerable developments in recent years, the total is still fluctuating at under 150,000 people, which very much under-represents China's total population. The Middle East and Asia's "Four Little Tigers" or "Four Little Dragons" all need large numbers of labor, we should fully utilize the advantages of having many overseas Chinese to break up any monopoly and organize labor export through various formats and channels.

Second, set up export labor from rural areas. Rural areas deal with agriculture and urban areas with industries, this was the structure prior to the beginning of reform

and opening. Since then, we have promoted the unification of cities and villages to break down the line between urban and rural areas. Because of the rapid growth of rural enterprises, industrialization of agriculture has begun in the rural areas; as a result, in areas where rural enterprises are developed, particularly in the South-eastern coastal areas, phenomena of agricultural neglects are increasingly common. A majority of the [rural] labor force have all gone into operating commercial enterprises, and the army of agricultural workers has been downgraded to the "38-61-99" troops women "38," children "1-6" and the elderly "99." If peasants can come into the cities to work in industries, why can't urban residents go to the villages to work in agriculture? Graduates of agricultural colleges, others who majored in agriculture and urban residents who know agriculture, why can't these people go to the villages and contract for the land and streams in the wilderness. The "four undeveloped's" [land, streams, grassland and fields] in rural areas have great potentials for development. Preliminary statistics indicate that China has 500 million mu of undeveloped cultivable area, 1.2 billion mu of undeveloped mountains and hillside, 700 million mu of grassy hills and slopes, 200 million mu of beaches and sandy banks, and 300 million mu of cultivable waterlogged land. Because of low cultural standards, only limited development has taken place; urban residents can rely on their advantage of greater knowledge to do some great things in the rural areas, for there is indeed a vast expanse of land and space where great deeds can be accomplished.

6. Seek Ways to Import Foreign Capital

Bringing in foreign investment can remedy domestic capital shortage at this stage, improve the capacity of state-owned fixed assets and realize the advantage of mutual support among different economic components; by attracting a sum of capital or importing a project, we can energize a part of our economy, take over a share of the market and solve the problem of employment for a group of people. China has to date approved 153,000 foreign-funded enterprises, which have established 47,000 going concerns, involving over 20 occupations and trades and over 70 specialized fields in China's economy, and employing some 5 million people. One important reason why the Zhujiang Delta area in Guangdong can absorb close to 100 million workers is the effective infusion and utilization of foreign capital.

7. Vigorously Expand Tertiary Enterprises

An important bench mark for measuring the extent of a country's economic development is whether tertiary enterprises constitute a larger or smaller proportion of the economy. In developed capitalist countries such as the U.S., Japan and in Europe, the proportion of tertiary enterprises in their economies exceeds 60 percent, and even India's reaches 48 percent, while China's does not even reach 30 percent. Therefore, developing the tertiary sector of the economy is certainly doable. The need for

labor in tertiary industries is very great, and they serve mainly the primary and secondary industries. The government has already drawn up a series of policies, laws and regulations to develop tertiary enterprises, it remains for us to join together, to treat the tertiary sector as a key sector and to deal with it forcefully, and we should certainly be able to absorb a large quantity of labor surplus.

In addition, we must absolutely forbid child labor, and prescribe strict regulations for employing farm workers and reemploying annuitants. We must especially educate people living in the cities to develop the spirit to endure hardship and to again tackle the hard and physically demanding jobs.

In summary, redirecting city labor surplus is a complex series of tasks whose scope and difficulties are much greater and more complex than redirecting rural labor surplus, and government authorities at all levels must give serious attention to this problem, concretely redirect city labor surplus, and satisfactorily solve the problem.

Agriculture

Heilongjiang Reports Livestock Output in 3d Quarter

95CE00183B Harbin HEILONGJIANG RIBAO
in Chinese 22 Nov 94 p 1

[FBIS Summary] By the end of the third quarter, the number of dairy cows in stock in Heilongjiang Province totaled 682,000, a 3.6 percent increase over the same period in 1993; cattle 313,800, a 30 percent increase; hogs 9.2 million, a 14 percent increase; sheep 374,400, an 18 percent increase; and poultry 136 million, a 15 percent increase. The number of cows removed from stock totaled 680,000, a 43.8 percent increase; sheep 888,000, an 18 percent increase; hogs 4,854,000, a 23.8 percent increase; and poultry 77 million, a 34.1 percent increase. Gross output of meat was 620,000 tons, a 24.5 percent increase; eggs 409,000 tons, a 13 percent increase; milk 972,000 tons, a 3.2 percent increase; and wool 11292.7 [as published] tons, a 16.7 percent increase.

Shandong Rural Areas Emphasize Laws

95CE0104B Jinan SHANDONG JINGJI RIBAO
in Chinese 28 Oct 94 p 1

[Article by Reporter Sheng Kang (4141 0474): "Shandong's Rural Areas Gradually Emphasize Laws"]

[FBIS Translated Text] With the acceleration in Shandong's local legislation on agriculture and the increased efforts in enforcing laws in this connection, peasants' rights and interests have become well-protected. More and more legally ignorant peasants have gradually learned how to apply and abide by the laws.

In recent years, many local laws and regulations were promulgated in the province in support of the "Law on Agriculture." With the enforcement of the "Regulations For Control of Rural Collective Economic Contracts in Shandong Province," more than 80 percent of the hilly villages in Shandong have established contract control groups and more than 90 percent of the townships established contract mediation or control commissions, and over 80 percent of the counties established contract arbitration or control commissions. Since rural contracts have become more standardized and scientifically managed, there are less contract disputes. According to statistics, a total of 15.36 million contracts of all types have been signed in the province, of which 14.23 million contracts were completely fulfilled and 940,000 contracts partially fulfilled, accounting for more than 95 percent of the total number of contracts signed.

After the announcement of the "Regulations for Control of Crop Seeds in Shandong Province," all the departments for the control of crop seeds in the province have strengthened their work with emphasis on three types of documents (business permit, production permit and seed quality acceptance certificate). They had handled 650 cases on inferior seeds, seized over 7 million kg of seeds of poor quality and prevented losses from poor yields which might reach 40 million yuan. After the announcement of the "Regulation for Agricultural Environment Protection in Shandong Province" in April this year, there seemed to be less pollution in the province in the past several months. Agricultural environment and peasants' rights and interests are now well protected.

Moreover, under the guidance of the provincial government, the Shandong Provincial Department of Agriculture and the Shandong Provincial Bureau of Commerce and Industry have conducted major check-ups on producer's goods for farming with emphasis on insecticide, seeds and chemical fertilizer, and handled a number of cases involving the sale of fake and shoddy producers' goods for farming to cheat farmers. They have not only rectified the market order, but also given the large number of peasants a good legal education.

Exchange Rate Impact on Rural Economic Growth Viewed

95CE0135A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese
No 10, 20 Oct 94 pp 33-41

[Article by Cai Fang (5591 2499): "Study of the Effect of Exchange Rates on China's Agriculture and Rural Economy"; first two paragraphs are editor's note on author's resume]

[FBIS Translated Text] Cai Fang: Born on 30 September 1956 in Beijing. Graduated in 1982 from Agricultural Economics Department, Chinese People's University. Graduated from Graduate School, Chinese Academy of Social Sciences in 1984 with a masters degree in economics. Obtained doctorate in economics in 1989. Did

research on the rural economy at the Rural Development Research Institute of the Chinese Academy of Social Sciences in 1985. Appointed assistant research fellow in 1988. Is currently a research fellow and deputy director of the Demographic Institute of the Chinese Academy of Social Science. Serves currently as director of Chinese Agricultural Economics Association and member of the Soft Sciences Committee of the Ministry of Agriculture. Main fields of research are rural development theory and policy, and economic theory. Main works are, China's Dualistic Economy and Manpower Transfers—Theoretical Analysis and Policy Recommendations, "Crossroad Choices—Ideas About the Intensification of Agricultural Economic System Reform," and "The China Miracle—Development Strategy and Economic Reform."

Main topics currently underway: "Absorption of Rural Surplus Manpower by China's Large Cities: Present Status, Prospects, Problems, and Remedies," "Study of the Effect of Exchange Rate Changes on Agriculture and the Rural Economy," and "Study of Regional Variations and Balance in Development of the Rural Economy."

A major reform of renminbi exchange rates took effect on 1 January 1994: The two track exchange rate was abolished, and the posted price exchange rate was merged with the swap exchange rate to form an exchange rate that approximates the market price. The implications of this reform are as follows: (1) The exchange rate went from the posted price of 5.80 yuan renminbi per \$1.00 to a uniform exchange rate of 8.50 yuan renminbi per \$1.00; (2) exchange rate formation is to be gradually based on the market economy, i.e., a single, managed, floating exchange rate system based on market supply and demand. Inasmuch as this reform is not just a one-time adjustment of the renminbi exchange rate, but rather a reform of the mechanism by which the exchange rate is formed, this change will, no doubt, effect all areas of China's economy—agriculture and the rural economy being no exceptions.

1. Analysis of the Effect on Agriculture and the Rural Economy of the Rise in the Exchange Rate

Since the advent of reform and opening to the outside world, China's agriculture has opened more and more to the outside world. Trade in agricultural products, and the importation of foreign capital for agriculture have grown rapidly. Exports of township and town enterprise products have also increased rapidly. The increasingly externally oriented agriculture and rural economy intensifies exchange rate changes.

1. Agricultural and Sideline Product Exports. The effect on the export of agricultural and sideline products of the rise in the exchange rate is positive. It helps stimulate an expansion of agricultural and sideline product exports. This stems primarily from two effects: The first is the stimulating effect of a rise in prices. We have expressed the exchange rate in terms of so many renminbi per United States dollar. A rise in the exchange rate means a rise in the American dollar price of the renminbi.

Assuming no change in the international market sale price of China's agricultural and sideline products, a rise in the exchange rate amounts to a rise in the renminbi export product price. That is to say that the amount of renminbi earnings for a specific quantity of agricultural or sideline products rises. For example, in 1993, China's exports of agricultural products and roughly processed products totaled \$91.76 billion. If this total were converted at an exchange rate of 5.80 yuan renminbi per \$1.00, the producers' renminbi sales earnings would come to 532.21 billion (provided there is no foreign-owned firm profit and fees). After the exchange rate was readjusted to 8.50 yuan renminbi per \$1.00 in 1994, for the same amount of United States dollar exports, the producer could expect to obtain 779.96 billion renminbi. From just a rise in the exchange rate, the producers' total earnings would increase 46.6 percent. No doubt, this would have the positive effect of stirring interest in the export of agricultural products. The second is the competitiveness effect of lowering agricultural product costs. A rise in the exchange rate may lower the cost of exported agricultural products in terms of their foreign exchange price. Consequently, China's agricultural products will be more competitive in the international market, thereby stimulating their export. Ordinarily, the protection level of agricultural products reflects the competitiveness of a country's agricultural products in the international market. The higher the protection price, the weaker the competitiveness; the lower the protection price, the stronger the competitiveness. As the exchange rate rises, the protection rate for agricultural products may be commensurately lowered, thereby increasing their competitiveness. For example, at an exchange rate of 6.00 yuan renminbi to the dollar, the nominal protection rate and the effective protection rate for Chinese wheat reached 16 and 10 percent respectively in 1992. At an exchange rate of 8.00 yuan to the dollar, these two protection rates become respectively -13 and -17 percent. China is about to revive its position as a GATT signatory. After entering GATT, China's trade in agricultural products is bound to take a hit. A rise in the exchange rate can soften this hit by changing the agricultural product trade protection level.

2. Agricultural and Sideline Product Imports. A rise in the exchange rate may depress imports of agricultural and sideline products. An exchange rate rise means a rise in the renminbi price of imported agricultural products. For example, in 1993, China's imports of agricultural products and roughly processed products totaled \$103.95 billion. At an exchange rate of 5.80 yuan to the dollar, a total of 602.91 billion yuan renminbi was spent on these imports. However, following the 1994 readjustment of the exchange rate to 8.50 yuan renminbi to the dollar, all other circumstances being equal, 882.58 billion yuan renminbi would have to be spent for these same imports. The renminbi price would be 46.6 percent higher, i.e., an increase in expenditure equivalent to the increase in the exchange rate. If China is able to produce these same imports, the rise in prices would stimulate

production of these products inside the country for an import substitution effect. China is a vast land in which conditions for agricultural production are rich and varied. It has the conditions to substitute domestic production for the importation of agricultural products. Therefore, the importation of agricultural and sideline products should be somewhat elastic vis-a-vis the exchange rate. However, looked at from another angle, since the country's agricultural production is not yet completely market mechanism based, prices of agricultural products—particularly grain prices—are distorted. Thus, peasants will not necessarily obtain a price benefit from readjustment of the exchange rate. Consequently, import substitution may not be stimulated to a sufficient extent; a rigidity of imports vis-a-vis exchange rates resulting. However, no matter what, because of a lowering of the protection rate, the domestic production of wheat—the country's leading agricultural product import—will be hit relatively little and relatively late by China's GATT reentry.

3. Agricultural Means of Production Imports Theoretically speaking, an upward readjustment of the exchange rate will depress agricultural means of production imports because of a rise in the renminbi price of imports. The size of this depressing effect will depend on the elasticity of agricultural means of production imports relative to the exchange rate, which is to say, it will depend on the possibility of substituting domestic production for these imports. In present terms, fertilizer imports in 1992 cost \$3.004 billion, or 3.7 percent of the import total, and about 80 percent of the agricultural means of production import total. The domestic production capability for suitable and premium quality chemical fertilizer is inadequate. It is a bottleneck in agricultural production. Until such time as this situation changes, chemical fertilizer imports will be quite rigid. When imports are rigid, a rise in the exchange rate means a rise in the cost of imported agricultural means of production, which may set off a corresponding rise in agricultural production costs, thereby producing a definite price rise effect.

4. Comprehensive Survey of Agricultural Imports. The overall advantages or disadvantages of the devaluation or rise in the exchange rate for a country's currency can be shown in whether such a policy readjustment improves its international balance of payments (trade balance). There is a well-known Marshall-Lerner condition in economics, the significance of which is as follows: only when the sum of a country's export goods demand elasticity and its import goods demand elasticity is greater than 1 will devaluation have a positive effect on that country's trade balance. This condition is expressed by the following formula:

$$dB = kX_f(e_{1m} + e_{2m} - 1)$$

In the formula, dB represents the change in the trade balance; k is the devaluation percentage; X_f is exports expressed in terms of foreign currency; e_{1m} is country 1's

(the devaluing country's) import goods demand elasticity, and e_{2m} is country 2's (another country's) demand elasticity relative to the devaluing country's exports.

A rise in the exchange rate or devaluation of the renminbi may lead to a rise in the prices of imported goods. The greater the demand elasticity of imported goods, the greater the degree of decline in the amount of imports. By the same token, the greater export goods demand elasticity on the international market, the greater the degree of increase in the amount of exports. Because of this mechanism, a devaluing country's trade balance may be improved to attain the anticipated benefits of devaluation. China's initiative in using readjustment of exchange rate parameters to move ahead with the opening to the outside world shows that results are positive. Therefore, China assumes that for the country's import-export trade in general, a rise in the exchange rate is consistent with the above "Marshall-Lerner Conditions." However, in comparison with the overall import-export structure, most of the agricultural exports and imports are necessities: raw materials, and goods needed for industrial inputs; thus, the elasticity of import and export demand is relatively small. Therefore, the effect on receipts and expenditures very likely cannot be as positive as the effect on the country's trade receipts and expenditures overall. In other words, the benefits to agriculture stemming from the exchange rate rise process are not as good as for other industries.

5. Use of Foreign Capital in Agriculture The effect of an exchange rate increase on bringing foreign capital into the country for agriculture is rather complete and has fairly widespread ramifications. On the one hand, it helps stimulate the supply of foreign capital while simultaneously holding down demand for the importation of foreign capital. For both creditors and investors, a rise in the exchange rate means relatively more renminbi for the same amount of foreign capital, or alternatively more domestic matching funds and domestic materials and manpower, which can increase the return gained on foreign capital. However, the domestic users of foreign capital have to increase both the amount of matching funds and the renminbi amount of debt repayment for a constant amount of foreign capital. For example, in 1992, the Ministry of Agriculture borrowed \$15.41 million. Assuming a 4 percent interest rate, if it repays the loan in 1993 at 5.80 yuan renminbi to the dollar, it will have to repay 92,523,000 yuan renminbi. However, at 8.50 yuan renminbi to the dollar, it will have to repay 136 million yuan renminbi 1 year later for the same loan. Clearly, a change in the exchange rate can likewise change foreign capital supply and demand. However, generally speaking, since China is a relatively capital poor country in which the real domestic exchange rate is higher than in developed countries, and in which the demand for foreign capital is greater than the supply, benefits from a rise in the exchange rate should be possible. However, the use of foreign capital in agriculture has a certain characteristic. If the payback period for the agricultural project is long, natural risks great, and

profits low, there is a risk that a change in the exchange rate may raise the cost of using the capital. Thus, the benefit from a rise in the exchange rate is not as good in agriculture as in other industries where results are fast in coming and the payback period is short.

6. Township and Town Enterprise Exports A rise in the exchange rate may spur township and town enterprise exports. For domestic production, a rise in the exchange rate raises the price of foreign capital, first of all, and because of the substitution of domestic capital that it occasions, it raises interest rates to a certain extent as well, thereby relatively lowering the price of manpower. The comparative advantage that China's township and town enterprises happen to possess lies in their being labor-intensive industries. For example, the output value of certain township and town concerns, and the percentage of industrial output value for which they account are leading coefficients of township and town concerns, and the results obtained from a correlation analysis of them with fixed assets per capita net output value in corresponding industries yields a number [shu 2422] of -0.3 and a rank correlation of -0.53. This shows the relative preference for considering the use of relatively low priced manpower township and town enterprises as a choice among industries. Therefore, a rise in the exchange rate can further increase the competitiveness of township and town enterprises in comparison with state-owned enterprises. Even more remarkably, a rise in the exchange rate enables the sale of township and town enterprise products abroad at a cheaper price, thereby expanding their international market share and increasing the degree of township and town enterprises' external orientation. The present state of development of the country's township and town enterprises suggests that market limitations have become a problem meriting concern, and that expansion of exports can help demolish bottlenecks to advance development.

7. Peasant Livelihood Receipts and Expenditures and Peasant Labor Costs. Generally speaking, a rise in the exchange rate may produce a direct rise in the prices of items used in daily life. Second, the substitution of domestic products for imports increases the demand for these substitutes, thereby indirectly increasing prices of items used in daily life. Third, a rise in prices of imported means of production may adversely affect the production costs of things used in daily life, causing a rise in the price of such things. Therefore, a rise in the exchange rate drives a rise in prices. The strength of this effect depends on the elasticity of domestic demand for the imports relative to the exchange rate. A level-by-level survey of domestic consumers found that inasmuch as the degree of dependence on imports differs for consumers at different levels, the effect is not entirely the same. The peasants' standard of living today is much lower than that of urban residents, and domestic substitutes can usually be found for the basic items that they consume in daily life. Therefore, the effects on the

peasant standard of living of a rise in agricultural manpower costs stemming from a rise in exchange rates is somewhat less.

2. Empirical Analysis of the Effects of a Rise in the Exchange Rate

The foregoing is a theoretical analysis of the effect of an exchange rate rise on agriculture and the rural economy. Inasmuch as the factors affecting the level of external orientation of the country's agriculture and rural economy are numerous, some of which, including some policy and institutional factors, and international and domestic market limiting factors, are fairly difficult to control, and also difficult to express in concrete terms in a quantitative analysis, there is a discrepancy between the actual effect of an exchange rate increase and the theoretical analysis. However, we still must put some effort into empirical work. For places in which the empirical results differ from the theoretical analysis, we can at least point out the complexity of the matters we observe in order to make a concrete and thorough analysis of these problems in actual policy work.

We have adopted the "elasticity of agriculture and the level of external orientation of the rural economy relative to changes in the exchange rate" as an indicator for estimating specifically the effect of a rise in the exchange rate. This elasticity is defined as follows:

Exchange rate elasticity equals the Percentage of change in the external orientation level of agriculture and the rural economy divided by the percentage of exchange rate change.

In this formula, "the percentage of change in the level of external orientation of agriculture and the rural economy" may be respectively stated as changes in farm product exports, changes in farm product imports, changes in agricultural means of production imports, changes in the amount of foreign capital used in agriculture, and changes in township and town enterprise exports, etc.; thus, statistical regression may be used to derive the effect (elasticity) of exchange rate change for each specific product or sector.

1. Estimated Effect of a Rise in Exchange Rate on Exports. Here we use the agricultural exports exchange rate elasticity to perform a regression calculation on eight different agricultural exports, and on the products that accounted for about 41.4 percent of agricultural product exports in 1991. The regression function formula is as follows: $\ln Y = C + a \ln X_1 + b \ln X_2$.

In this formula, Y represents the export quantity and export value of a product, X_1 is the annual average exchange rate, X_2 is the product export price, C is the constant coefficient, a is the product's export exchange rate elasticity, and b is the product's export price elasticity. Other factors not being considered, the actually estimate parameter a expresses the effect of the exchange

rate on the product's export, i.e., when the exchange rate varies 1 percent, that product's export varies a percent.

Results of calculations are as follows: (1) Grain: In 1992, export volume was 13.64 million tons having an export value of \$1,995,760,000. Exchange rate elasticity was 0.620, i.e., for every 1 percent rise in the exchange rate, grain exports increased 0.62 percent. (2) Husked rice: In 1992, export volume totaled 950,000 tons having an export value of \$217.85 million. Exchange rate elasticity was negative, differing from the theoretical prognostication. Regression fit results were also poor, showing that some important variables may have been overlooked. For example, decontrol of Vietnam farm product prices stimulated husked rice exports. In 1989, Vietnam vaulted from being unable to satisfy its own needs to being a major rice exporting country, exports running to 1.5 million tons. In view of this factor, we added an imaginary variable. Even though exchange rate elasticity was negative, the absolute value narrowed greatly. The imaginary variable coefficient was -0.367, showing that changes in international market conditions place substantial limits on China's grain exports. (3) Soybeans: In 1992, soybean exports totaled 600,000 tons having a value of \$159.63 million. Exchange rate elasticity was 1.057, i.e., for every 1 percent rise in the exchange rate, soybean exports increased 1.06 percent. (4) Vegetables: In 1992, vegetable exports totaled 1.38 million tons having a value of \$833.68 million. Exchange rate elasticity was 0.559, i.e., for every 1 percent rise in the exchange rate, vegetable export increased 0.56 percent. The degree of regression fit was fairly high. (5) Fruit: In 1992, fruit exports totaled 145,600 tons having a value of \$78.67 million. Exchange rate elasticity was 0.441, and the regression fit rate was fairly low. (6) Aquatic products: In 1992, exports of aquatic products totaled 40,000 tons having a value of \$1,366,050,000. Exchange rate elasticity was 0.070, i.e., for every 1 percent rise in the exchange rate, aquatic product exports rose 1.07 percent. The regression fit rate was fairly high. (7) Live hogs: In 1992, live hog exports totaled 2.9 million head having a value of \$289.56 million. Exchange rate elasticity was a fairly low negative, showing the existence of other important export-limiting factors. (8) Fresh frozen meat: In 1992, exports of fresh frozen meat totaled 98,500 tons having a value of \$164.41 million. Exchange rate elasticity was very small, and the regression fit was also fairly low. The significance of the estimated value was not great.

2. Estimated Effect of Rise in Exchange Rate on Farm Product Imports. Using the foregoing exchange rate elasticity definition, we made regression calculations for eight kinds of agricultural exports, and for the products that accounted for 51.5 percent of total farm product imports in 1992. The function formula is as follows: $\ln Y = C + a \ln X_1 + b \ln X_2$.

In the formula, Y is the quantity or the value of a given import; X_1 is the average exchange rate for the year; X_2 is the price of the import; C is a constant; a is the

import's exchange rate elasticity, and b is the import's price elasticity. We also added imaginary variables to some of the calculation parameters as needed. The actually calculated coefficient a shows that all other factors remaining the same, a 1 percent rise in the exchange rate increases the import of a given product by a percent (a may be a negative value, showing a decline in imports of the product).

We continued to use both the quantity and value of imports as a dependent variable. Regression results appear in Table 1: Grain: Only the exchange rate and the import price were used to explain changes in grain imports, the results of which are less than ideal. The very high level of China's grain supply in 1984, when the per capita amount of grain reached an all-time high, served to reduce imports. Although a grain shortage appeared very rapidly, the lag period ensuing from the readjustment of imports was quite short. Therefore, we added an imaginary variable for the special circumstances during the 3 year period 1984 through 1986. After making this readjustment, the regression fit improved, and exchange rate elasticity turned out to be a negative value just as theory had anticipated at 0.203, i.e., a 0.2 percent decrease in grain imports for each 1 percent increase in the exchange rate. (2) Wheat: Wheat is the main kind of grain that China imports; therefore, the method used was the same as for grain, an imaginary variable added. The explanatory ability of this variable was strong, namely, a rise in the per capita amount of grain led to a reduction of imports. The exchange rate elasticity mark [fuhao 4569 5714] was also entirely as predicted at -0.14, but the fit was poor. (3) Barley: Livestock feed crops are in fairly short supply in China; therefore an imaginary value was used, but reduced for 1 year, i.e., the supposed increases were not remarkable by 1986. The explanatory ability of this variable was strong, and the exchange elasticity fit was also rather good, but the elasticity mark was not entirely as anticipated, i.e., barley imports increased 2.53 percent for each 1 percent rise in the exchange rate. This showed that the trend of barley imports cannot be easily limited by the use of relative price. (4) Corn: When an imaginary variable was applied to corn, only 1984 and 1985 were taken into account. Exchange rate elasticity was identical with the forecast mark at -3.87, i.e., for each 1 percent increase in the

exchange rate, corn imports declined 3.9 percent. In addition, the regression fit rate was fairly high. (5) Beans, including dried beans and soybeans: The fit was quite good, and exchange rate elasticity was -2.22, i.e., for each 1 percent rise in the exchange rate, bean imports fell 2.2 percent. (6) Sugar: Exchange rate elasticity was a negative value for sugar, as theoretically forecast, but regression results were not good. The coefficient of determination, R^2 was very low. Therefore, this regression coefficient should not be taken as certain. Natural rubber: The regression fit was quite good, and exchange rate elasticity was 0.8, identical with the theoretical forecast, thus showing that imports of natural rubber are not restricted by the exchange rate or prices. (8) Wool: The coefficient of determination, R^2 was very low; the T , or test, value was also small, exchange rate elasticity was a positive value, and regression results demonstrated nothing.

3. Effect of Estimated Exchange Rate Rise on the Importation of Foreign Capital for Use in Agriculture. A regression analysis of this correlation requires the price of the money to be used, i.e., interest rate data. Since these data were lacking, a regression analysis could not be made. A research topic team in Nanjing Agricultural University's Economic Relations and Trade Academy used exchange rate and export prices to make a regression analysis of foreign capital used in agriculture, which yielded a 1.78 exchange rate elasticity, i.e., for each 1 percent rise in the exchange rate, foreign capital imported for use in agriculture might rise 1.78 percent. Our calculations showed the correlation coefficient between exchange rate changes and the importation of foreign capital for agriculture to be a positive value, thereby showing a positive correlation between the two. A correlation analysis performed on the exchange rate and agreements signed for the use of foreign capital in farming, forestry, animal husbandry, the fishing industry, and water conservancy during the period 1983 - 1991 yielded a correlation coefficient of 0.8185. The correlation coefficient between the exchange rate and signed foreign supply and loan agreements for farming, forestry, animal husbandry, the fishing industry, and water conservancy for the same period was 0.7785. Such a correlation analysis has no forecasting significance, nor can it explain the cause and effect relationship among variables, but it can help use verify theoretical forecasts.

Table 1. Exchange Rate Elasticity Estimates For Major Farm Imports

Product	Dependent Variable	Constant Coefficient	Exchange Rate Elasticity	Price Elasticity	Imaginary Variable Coefficient	R ² Following Readjustment
Grain	Import Volume	9.521(4.011)	-0.203(-1.187)	-0.210(-0.675)	0.641(-5.726)	0.730
Grain	Import Value	9.521(4.011)	-0.203(-1.187)	0.790(2.538)	-0.641(-5.726)	0.820
Wheat	Import Volume	8.483(3.145)	-0.135(-0.670)	0.099(-0.289)	-0.640(-4.958)	0.664
Wheat	Import Value	8.483(3.145)	-0.135(-0.670)	0.901(2.632)	-0.640(-4.958)	0.785
Barley	Import Volume	-8.746(-2.250)	2.534(7.352)	1.244(2.473)	-1.012(-3.164)	0.879
Barley	Import Value	-17.956(-4.620)	2.534(7.352)	1.244(4.460)	-1.012(-3.164)	0.879
Corn	Import Volume	53.155(9.510)	-3.871(-4.039)	-3.715(-5.464)	-1.538(-1.618)	0.800
Corn	Import Value	43.944(7.862)	-3.871(-4.039)	-2.715(-3.933)	-1.538(-1.618)	0.800
Beans	Import Volume	50.490(6.444)	-2.221(-3.857)	-4.533(-4.575)		0.673
Beans	Import Value	41.279(5.268)	-2.221(-3.857)	-3.533(-3.566)		0.605
Sugar	Import Volume	9.050(2.918)	-0.258(-0.847)	-0.464(-1.174)		-0.027
Sugar	Import Value	9.050(2.918)	-0.258(-0.847)	-0.536(-1.356)		-0.106
Natural Rubber	Import Volume	-0.131(-0.037)	0.802(4.913)	1.158(2.598)		0.671
Natural Rubber	Import Value	-9.341(-2.619)	0.802(4.913)	1.158(2.158)(4.841)		0.739
Wool	Import Volume	10.185(-2.619)	0.268(0.642)	-0.033(-0.038)		-0.164
Wool	Import Value	0.974(0.142)	0.268(0.642)	0.967(1.806)		0.030

(Note) Numbers in parentheses are T values

Estimated Effect of Exchange Rate Rise on Township and Town Enterprise Exports

Getting township and town export price data for this regression analysis was also difficult. We tried the use of exchange rates and township and town enterprise gross output value to make a regression analysis of total township and town enterprise export deliveries. The fit yielded was not ideal, but the marks were positive. They were identical with theoretical forecasts. We made a correlation analysis of township and town enterprise total deliveries, and the exchange rate level from 1985 through 1992, finding that the two had a marked positive correlation, the correlation coefficient being 0.9165.

5. Estimated Effect of a Rise in Exchange Rates on Agricultural Means of Production Imports. The main

agricultural means of production import is chemical fertilizer. In 1992, 80 percent of all agricultural means of production imports were chemical fertilizer. The regression analysis performed on chemical fertilizer and agricultural pesticide imports between 1981 and 1992 is shown in Table 2. Regression function and estimated agricultural product import exchange rate elasticity were identical. The regression results show a fairly good fit. Agricultural pesticide imports also had similar exchange rate elasticity; however, regression results were not good. These results showed very strong rigid demand for imports of materials used in agriculture such as chemical fertilizer and pesticides. These imports did not abide by theoretical forecasts, but were dependent on exchange rate changes.

Table 2. Estimate of Exchange Rate Elasticity for Chemical Fertilizer and Agricultural Pesticide Imports

Product	Dependent Variable	Constant Coefficient	Exchange Rate Elasticity	Price Elasticity	R ² After Readjustment
Chemical Fertilizer	Amount	-3.215(-0.704)	1.110(4.211)	0.728(1.072)	0.633
	Value	-3.215(-0.704)	1.1110(4.211)	1.728(1.072)	0.589
Agricultural Pesticides	Amount	21.110(2.367)	1.055(1.188)	-2.012(-1.347)	-0.016
	Value	11.889(1.334)	1.055(1.188)	-1.012(-0.678)	-0.027

(Note) Numbers in parentheses denote T value

3. Policies in Response to the Exchange Rate Rises That Agriculture and the Rural Economy Face

The trend toward a rise in exchange rates provides a relaxed environment for the opening of international farm product markets, and wins fairly ample time. Advocacy of the liberalization of international trade is GATT's fundamental aim. China is in process of winning back its position as a GATT signatory, and promising the liberalization of the trade of every industrial sector, and lowering protection levels is an unavoidable duty. Since China has a large population on relatively little cultivated land, it lacks comparative advantage in agricultural production, and particularly in grain production. In long-range terms, its agriculture lacks competitiveness in international markets, but many of China's trading partners are large agricultural countries, and main suppliers of the international farm products market. Discussions with other GATT signatories both prior to and following GATT recovery will unavoidably involve farm product, and particularly grain trade, liberalization.

Economic analysis suggests that reducing production of goods in which a country does not possess a comparative advantage, using the resources saved thereby to produce goods in which it does have a comparative advantage, and satisfying domestic consumption demand through international trade is economically beneficial. In addition, some countries and territories that practice agricultural protectionist policies also provide lessons that such policies create a waste of materials and low efficiency, as well as the social rot that the activities of interest groups create. Therefore, in terms of long-range objectives, China's agriculture cannot become a part of the international division of labor. Free trade in farm products must be put on the agenda sooner or later. However, the liberalization of trade in agricultural products is an extremely complex issue. To what extent should it be opened to the international market? When should it be opened? Both choices must be made on the bases of the country's special circumstances, and the international trade environment at any given time. China's policy choices require, at minimum, unequivocal and reliable answers to the following questions before liberalization of trade in farm products can be seriously considered: (1) If we open up farm products to the international market, for what percentage of the country's farm product consumption will we be dependent on international supply; (2) Is this percentage such as to ensure national security? This question relates to judgments about the international situation, forecasts about disasters, and the speed with which domestic production can be mobilized; (3) Can opening to the international market ensure steady rise in peasant income? and (4) the source of foreign exchange problem.

Clearly, the problem of liberalizing trade in farm products is not one that China can solve overnight. Moreover, we also genuinely feel international pressures, particularly from GATT signatories and our main trading partners. In this process, a steadily rising trend in

exchange rates helps ease the pressures. It provides time for policy choices and preparation process. When exchange rates rise, prices of both domestic resources that a rise in exchange balances and farm products both decline; consequently, the country's calculated farm products protection coefficient declines too. This gives us the initiative in attendant discussions. However, after gaining such a cushioning time and initiative, policy choices remain extremely important. If we remain complacent during this cushioning period, maintaining the same policies, ultimately we will be confronted with difficulties. When we have no further cushioning opportunity, hasty decisions may be passive ones. Another policy choice is to use the comparative agricultural advantages that the country still possess to make certain policy readjustments that open up free trade without leading to broad opportunities for large quantities of farm products to come surging into the country through international trade. Examples include loosening controls on farm production and trade in developed coastal provinces, permitting them to allocate agricultural resources on the principal of comparative advantage, and importing suitable quantities of needed grain. In addition, major domestic farm produce procurement and price policy reforms must be made, agricultural production and commodity circulation resting on allocation of resources by a market mechanism. Only in this way can China's agriculture and grain production gain a comparative advantage, and the distribution of domestic comparative advantages be revealed by the market. Possibly, at that time, we may find that China's agriculture is not entirely without comparative advantages.

2. New Competitive Advantages Must Be Found For China's Export of Farm Products. Although Chinese agriculture has not become a surplus industry, traditionally, the export of farm products has held an important position in the country's trade balance. Take, for example, the export of primary products of which agricultural and by-products are the main constituent part. In 1980, such exports accounted for 50.3 percent of the Customs' total exports, and in 1992, they still accounted for 20.1 percent. In 1970, the country's comparative advantage in farm products began to decline sharply. World Bank calculations show that Chinese agriculture's apparent comparative advantage index had begun to fall from 2.37 during the early 1970s to 1.3 during the late 1980s. (See Table 3.) In the process of raising the exchange rate, the rapid decline in the country's comparative advantage in farm products eased to a certain extent; however, since, in the final analysis, comparative advantage is decided by a country's natural endowment and level of development, exchange rate changes cannot completely halt a fall in comparative grain advantage and a decline in export competitiveness. Faced with this real and potential competition, the export of China's agricultural products, including grain, encountered numerous challenges. Husked rice exports and competition from Vietnam are examples.

Table 3. Comparative Advantages of China's Grain, Agriculture, and Other Sectors

	Farming				Other Primary Products	Textiles	Other Manufacturing Industries
	Paddy	Wheat	Rape	Total			
1955-59	na	na	na	na	na	2.1	na
1955-69	na	na	na	2.1	0.30	3.3	0.44
1970-74	36.33	0.25	2.40	2.3	0.30	3.4	0.48
1975-77	30.33	0.26	1.45	2.2	0.70	3.9	0.46
1978-80	na	na	na	1.9	0.90	4.6	0.48
1981-83	na	na	na	1.6	1.00	5.0	0.47
1984-87	4.05	0.17	1.23	1.4	1.10	5.1	0.47
1987-89	2.25	0.20	1.02	1.3	0.70	6.5	0.49

Table 3 shows a slight rise in the comparative advantage of manufacturing industries simultaneous with a decline in the comparative advantage of agriculture. However, the comparative advantage of textiles showed an enormous rise. This reflects a rise from the country's comparative advantage in primary industries to processing industries, and it also reflects a shift from a comparative advantage in land resources to manpower resources. The fact that the country's textile industry possesses the most comparative advantage also reflects the country's comparative advantage in the growing of cash crops, which requires more intensive use of manpower in agriculture. In the process of raising exchange rates, one positively cannot stick to old ways of doing things because of a slowing in the speed of decline of comparative advantage. A more positive response should be to use this opportunity to accelerate readjustment of the agricultural production structure through price reforms and the role of the market mechanism to enable the country's agriculture to maintain long-term competitiveness in international markets.

3. Readjustment of the Way in Which Foreign Capital Is Used in Agriculture to Substitute Domestic Production For the Importation of Means of Production Used in Agriculture. Both theoretical and empirical analysis show that when agricultural product demand elasticity is small, importation of agricultural means of production is fairly rigid; consequently, the positive significance of an exchange rate rise on the agricultural balance of trade is not as great as for the national economy as a whole. This is particularly true for agricultural means of production inasmuch as domestic production capabilities and product quality are both relatively low, and cultivated land is scarce, output increases depending primarily on an increase in these inputs. Consequently, a rise in the exchange rate cannot immediately depress or reduce such imports. Every year since the 1990s, China has had to spend more than \$3 billion on chemical fertilizer imports. Since imports cannot be decreased, a rise in the exchange rate means a rise in the price of agricultural means of production, which may have three outcomes: (1) The rise in the price of the means of production becomes part of the cost of farm products. This increased

cost is also borne by different entities depending on the market supply and demand situation, or it is transferred to the growers. When product supply is greater than demand, product prices cannot be raised very much, so the product has to bear this increased cost. When product supply does not meet demand, prices are driven by costs, increased costs being transferred to the consumer. Another situation is different cost burdens or different market supply situations for different farm products. Under these circumstances, producers may shift resources to the production of crops for which production costs are low or market demand is large. We anticipate that this regression in production will cause a grain shortage. (2) The state provides subsidies to pay for the increased costs of producers or consumers. However, the problem with this is, first, the national treasury has been in straitened circumstances in recent years; it is hard to imagine that it has the financial resources to provide such subsidies. Second, subsidies are bound to warp the true price of farm products, causing distorted market signals in turn. This runs contrary to the orientation of socialist market economy reforms. (3) A rise in the relative prices of agricultural means of production increases the stimulus or level of compensation in that industry, which may lead to a greater flow of domestic resources into that industry thereby bringing about import substitution. The main point of market regulation lies in stimulating an increase in supplies when increased demand for a product leads to a rise in its relative price. Therefore, import substitution a method of solution that is consistent with market economy principles.

One feasible way of instituting agricultural means of production import substitution is related to a change in the way in which foreign capital is used in agriculture. The previous analysis shows that, over the long run, a rise in the exchange rate increases the supply of foreign capital, which is beneficial to the importation of foreign capital for agriculture. However, because of the long period required to get a return, the relatively low return on agricultural products, and substantial risks of agricultural products, most previous project arrangements had a plan character. As the market economy plays a more

and more important role in the orientation of investment, foreign capital has tended to go into projects other than agricultural ones. Moreover, frequent increase in the exchange rate may regularly increase the cost and interest payments for the use of foreign capital, giving rise to uncertain prospects, and also create pressures for foreign capital to transfer out of agricultural projects with their long payback periods and strong uncertainties. Therefore, the use of the way in which foreign capital for agriculture is used should be changed gradually. The use of commercial credit should be changed from investment for policy reasons and in projects that produce social benefit to investment for commercial reasons and in projects that produce a profit. Import substitution for means of production used in agriculture, particularly chemical fertilizer and agricultural pesticides is a fine field for the use of foreign capital. Since cultivated land is scarce in China, potential for the development of agriculture lies in increasing per unit of area yields. In addition to accelerating progress in biotechnology and the application of agricultural science and technology, chemical fertilizer and agricultural pesticides offer the main means for improving yields. Therefore, a new field that should be chosen for the use of foreign capital in agriculture should be chemical fertilizer and agricultural pesticide import substitution industries.

More Rapid Development of Rural Markets To Put the Price System on a Market Economy Basis. A price system in the broad sense includes both product prices and production element prices, the latter including, in turn, land prices, interest rates, and exchange rates. The merger of renminbi exchange rates and future exchange rate readjustments are a process whereby the price of foreign exchange and constant corrections of distortions in the foreign exchange rate will be via the market mechanism. The price system is a complete and organic system, and markets are also a complex systems framework; consequently, the gradual formation of exchange rates by the market will prices of other key elements of production and prices of products to shift correspondingly to a market economy basis; otherwise, a complete market economy is impossible. Because of the mutual compatibility of systems, exchange rate reform is bound to make necessary reform of the entire price system. When we face the effects of a rise in the exchange rate on agriculture and the rural economy, we should act according to economic principles to conduct needed reforms that are in keeping with the fostering of markets. WE should not violate these principles by performing so-called "countermeasures." Generally speaking, a rise

in the exchange rate offers a fine opportunity for reform and development of the agricultural economy that should be used to the full.

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Hubei Increases Winter Rape Area

95CE0183C Beijing NONGMIN RIBAO in Chinese
12 Dec 94 p 1

[FBIS Summary] The winter rape area in Hubei Province is 12,750,000 mu, an increase of 3,250,000 mu or 34.7 percent over 1993.

Jiangsu Concludes Autumn Sowing

95CE0099W Nanjing XINHUA RIBAO in Chinese
19 Nov 94 p 1

[FBIS Summary] The autumn grain area in Jiangsu Province is 2,625,200 hectares, accounting for 98.4 percent of the provincial plan. The rape area is 579,600 hectares, exceeding the provincial plan by 8.6 percent.

Guizhou Estimates for Livestock Industry in 1994

95CE0099X Chongqing XINAN JINGJI RIBAO
in Chinese 30 Nov 94 p 1

[FBIS Summary] According to 1994 estimates for Guizhou Province, the number of hogs removed from stock will total 9,270,000, a 2.6 percent increase over 1993; the number of cattle 510,000, an 11.2 percent increase; the number of sheep 940,000, a 12.3 percent increase; and the number of poultry 26 million, a slight increase over 1993. Gross output of meat will total 970,000 tons, a 9 percent increase; dairy products 14,000 tons, a 5.6 percent increase; and eggs 43,000 tons, a slight increase. The number of draught animals in stock will total 7.1 million, a 1.4 percent increase; the number of hogs 14,430,000, a 2.3 percent increase; and the number of sheep 1,860,000, an 11.4 percent increase. The gross value of the livestock industry will total 5.3 billion yuan, a 9.4 percent increase after deducting for inflation.

Jiangsu Rural Savings Increase

95CE0099Y Nanjing XINHUA RIBAO in Chinese
2 Dec 94 p 1

[FBIS Summary] As of 20 November, rural saving deposits in agricultural banks and credit cooperatives in Jiangsu Province reached 60.3 billion yuan, and per capita rural savings were 1,119 yuan. As of 20 November, agricultural banks and credit cooperatives had issued 61.13 billion yuan in loans, and allocated over 7 billion yuan for autumn crop procurement, no IOUs were issued to farmers.

Development Plans for Oil Crops

95CE0104D Wuhan ZHONGGUO YOULIAO [OIL CROPS IN CHINA] in Chinese No 3, Sep 94 pp 80-81

[Article by Sun Yanhao (1327 1750 3185), Shandong Provincial Peanuts Research Institute, entitled: "Study and Development of Peanuts Cultivation and Peanuts Production"]

[FBIS Translated Excerpt] [passage omitted] (1) Target for Production and Development

According to the general trend in China's population growth, shrinking arable land and the increasing material requisite in agricultural production and with reference to the plan target of 26.3 million tons of oil-bearing crops by the year 2000 and the average growth rate of 4.1 percent for the production of oil-bearing crops during the Eighth Five-Year Plan set by the "Outline for Mid and Long-Term Development for Agro-Science and Technology" of the Ministry of Agriculture, peanuts production should increase quite rapidly between 2000 and 2020. By the end of the Period of the Eighth Five-Year Plan, the area sown to peanuts should be around 3.33 million hectare and the per-hectare yield of peanuts at 2,250 kg. The per-unit yield is expected to rise to 2,700 to 3,300 kg and the total output may reach 8.75 to 10 million tons.

(2) Plan for Study of Cultivation Techniques

In order to fulfill the aforementioned production targets, new cultivation techniques will be applied in an even larger area. There will be new breakthroughs in boosting the per-unit yield. A system to study science and technology for higher yields and better cultivation techniques with Chinese characteristics is expected to take shape.

1. Emphasis must be placed on the development and use of cultivation techniques. China has abundant techniques in growing peanuts. To achieve the production targets set for 2000-2020, we must put our scientific achievements in this connection to actual use in growing peasants as soon as possible. We will be able to increase the total output of peanuts by 2.7 to 3.75 million tons if we can apply our techniques in improving low and moderate yielding farmland, in cultivating peanuts for high yields

by inter-planting peanut with wheat and using the method of direct seeding in summer, in covering the plants with plastic film and in growing peanuts in conformity with the standard of yielding 7,500 kg of spring peanuts per hectare on 2.5 million hectare of our farmland. It means that on our existing 3.33 million hectare of farmland planted with peanuts, we will be able to increase the average per-hectare yield of unshelled peanuts by 900-1,200 kg.

2. Strenuous efforts must be made to study science in cultivating peanuts and further explore ways for higher yields. Our experience shows that peanut is a highly photo-active and high-yielding crop. We have great potential to increase its output. Some scholars and experts in the country estimate that each hectare of farmland sown with early ripening small peanuts of good strain may yield as much as 11,875.5 kg while that sown with mid-season large peanuts of fine variety may yield 17,274.9 kg. From now on, we should study hard how to increase yields in the following manner:

(a) Create good parent material by carrying out research work in molecular biology and improving genetic genes, and cultivating new and highly photo-active varieties for steady growth.

(b) Study and simulate the ecological conditions of high-yielding peanuts; create high-yielding solum and enrich soil so that it will maintain a high-yielding solum structure. Study how to improve soil fertility and develop special fertilizer for growing peanuts.

(c) Study the utilization of light energy by high-yielding peanut population, explore ways to use C_4 to improve photosynthesis, and increase the conversion speed of the photosynthetic substance. Study new measures to use water reservoirs to regulate the water supply.

(d) Study technology to chemically control the accumulation of highly photosynthetic substance in high-yielding peanuts and maintain a low V/R partition ratio; and develop new hormone aimed at inhibiting flowering and pruning buds and at feeding nutrients to the roots and protecting leaves.

3. Efforts must be made to continuously explore ways to develop solid planting with emphasis on growing peanuts. In order to increase the multiple crop index and prevent crops from fighting for nutrients from soil, solid planting with emphasis on growing peanuts will become a focal point of study in the future. Emphasis will be focused on: (a) the study of new varieties of companion crops for three-dimensional planting pattern; (b) the study of complex population structure among companion crops; (c) the study of the relations among the companion crops in reciprocally promoting and destroying each other; and (d) the study of issues such as the use of special fertilizers and chemical and light control to achieve optimization in using the method of solid planting.

Difficulties Confronting Social Welfare Reform

95CM0044A Beijing SHEHUIXUE YANJIU
[SOCIOLOGICAL STUDIES] in Chinese
No 53, 20 Sep 94 pp 7-10

[Article by Zhu Li (2612 0500), Department of Sociology of the Nanking University, entitled: "Difficulties and Breakthroughs—On Reform of Social Security System Under Market Economy"]

[FBIS Translated Excerpt] [passage omitted] The social security system is composed of four mutually related essential factors—beneficiaries, funds, management and laws and regulations. To reform this system, we are confronted with the following problems:

1. Beneficiaries. (1) The coverage is not comprehensive. In 1990, 29 percent of the workers in China's whole society were covered by the social security system. Meanwhile, there were big differences between the urban and rural areas. Only 1.6 percent of the workers in rural areas was covered, while that in urban areas 92 percent. In the cities, state-owned enterprises and undertakings are mainly covered. Some of the collective enterprises are covered and their family members are 50 percent covered (medical care). The coverage is also narrow. Peasants who constitute the main force of China's labor force and workers of the nonstate economic sector are not covered. (2) Excessive coverage. The state and enterprises have to bear the heavy burden in insuring the workers. Asking enterprises to pay for social security is essentially demanding that they bear the financial burden of social undertakings. Enterprises must pay for their workers' childbirth, old age and illness and burial arrangements as well as their family members' tuition fees, thus creating a great deal of wastes. It is hard for the enterprises to concentrate their efforts on production. (3) Coverage is not balanced. Some old enterprises have made outstanding contribution to the state, but they have a large number of retired workers. Their burden is heavy and their efficiency low. They are unable to compete with others in the market. New and developing enterprises have young workers. Their burdens are much lighter and their work system is new and efficient. All this creates a vicious cycle. The more enterprises need security, the more they cannot afford to pay for it.

2. Funds. (1) In raising funds, we have limited financial resources while our level of socialization remains low. Burdens on different enterprises are uneven. Some enterprises which earn less or are less submissive offer little contribution or simply refuse to make any contribution to social security funds. There are too many restrictions in the use of social security funds in individually or privately run and foreign-funded enterprises. (2) In the use of social security funds, there are no funds earmarked for that specific purpose. Payments are sometimes made irrationally. Some payments are delayed or partially made. Some enterprises use social security funds for other purposes or misappropriate the pension funds as circulating funds or investment in fixed assets or even spend all social security

funds for other purposes. (3) There is a disconnection between payment and fund-raising. The practice of "making cash receipts and disbursements, achieving a uniform balance and regulating supply and demand" has separated payments from fund-raising and workers' own contribution to the social security funds. The arbitrary transfer of resources from profit-making enterprises to help deficit-ridden enterprises solve their workers' pension fund problem creates a sense of unfairness. (4) The double-track system in fund-raising is unscientific. New workers (contract and temporary workers) make full contribution to accumulation funds, while in dealing with old workers (permanent workers of state-owned or collectively run enterprises), the enterprises adopt the method of "determining the amount of funds to be raised according to amount of disbursements with a small cash surplus." The disadvantage of this kind of double-track system is that the accumulation funds are faced with the problem of devaluation. Meanwhile, the number of new workers is increasing while that of old workers is declining. Enterprises have to spend more in support of both groups. When new workers replace old workers, there will be less contribution to the pension funds for the retired permanent workers. Moreover, in carrying out the practice of cash receipts and disbursements enterprises have to make payments from the existing funds contributed by all workers. It seems that workers who are now working have to support the retired workers. This situation will dampen the enthusiasm of those who are now working. (5) The coverage is inadequate. For example, the retirement benefits will remain the same, once the amount is determined. There is no mechanism to make due adjustments to keep pace with the rising wages or commodity prices. The basic livelihood of the retired workers cannot be guaranteed. In short, social security is a material protection. The focal point is to raise and distribute funds in this connection. However, as of now, we have not yet formed a fund-raising system which keeps pace with the state of affairs in China. We are unable to develop a virtuous cycle for the social security funds. As a result, many of our good concepts cannot be implemented.

3. Management. (1) There is a lack of coordination among various government departments, and the system is ineffective. There are many government departments in charge of the social security program. They include the commission for Restructuring Economic System and the various departments in civil affairs, labor, personnel, medical care and public health, various mass organizations and commercial establishments such as the trade union and insurance companies and so on. This creates a situation whereas many departments and organizations are participating in the social security program, but none of them is doing a good job. Sometimes, many departments vie with one another to develop one single project, while no one cares about other projects. (2) The social security system is carved up horizontally and vertically. The system is also inefficient. For example,

the overall plan to raise funds for old-age pension insurance is made by a specific city, county or line of business. Meanwhile, security funds are placed under the management of the enterprises of different ownership systems and workers of different trades. They are carved up in small pieces. Therefore, it will be difficult to apply the law of large numbers (da shu fa ze 1129 2422 3127 0463) for social security and give full play to the role of the old-age pension funds in readjusting the society. (3) Poor management and loopholes. Nothing can be done in dealing with those enterprises which refuse to implement the policy of the state on social security and decline to participate in the social security system. The social status of the social security departments remains low. They have little authority, and their measures are feeble.

4. Laws and regulations. (1) The situation is unclear. Theories are unsound. Due to the radical changes in China's society, many basic situations concerning social security are unclear. We are also exploring ways on how to coordinate the various sectors of the social security system. Many theories are also immature. (2) Laws and regulations on social security are incomplete. They are not mandatory. We are still in the stage of relying on the state policy as a guidance to make adjustments. Various nations in the world invariably ask the employers to bear the responsibility for providing social security benefits. That is, enterprises have unshirkable obligation to pay for the benefits to their workers. We mainly rely on mandatory laws and regulations to enforce this kind of restraint. Without such laws and regulations, it will be hard to impose such restraint. [passage omitted]

Symposium on Worsening Social Order Held

95CM0080B Beijing GUANGMING RIBAO in Chinese
23 Nov 94 p 5

[Article by Ren Enshun (0117 1869 7311): "Our Focus in Improving Our Social Order Ought To Be On the Future"]

[FBIS Translated Excerpt] The Chinese Police Institute recently held a symposium of famous experts to analyze our social order problem. [passage omitted]

I. A Critique of Our Current Public Order Situation

The consensus among the experts on our current public order situation is that "it is basically stable and still normal, but with severe hidden perils, so not optimistic." That it is still normal means that while there are problems in our current public order, they have not yet affected our overall stability. Activities, such as social production, research, work, and business, are proceeding normally, with public order essentially ensured, most people having a sense of security, and the chaos in public order being only in a few regions.

That "there are severe hidden perils" means that the overall number of [criminal] cases is growing too fast, particularly as to a crucial indicator of public order—the

large growth of major criminal cases, where the continued growth momentum has not yet abated. In this respect, certain deeper-level social conflicts are still developing.

II. An Evaluation of Our Public Order Standards

Some experts and scholars held that there are three criteria for a normal public order. 1) That our overall public order is not subject to severe short-term volatility, with no large-scale phenomenon of severe crime. 2) That major crucial activities in the public arena can proceed normally. 3) That there are no major disturbances or riots.

Other experts and scholars held that there should be three indicators with which to evaluate our public order. 1) A hard indicator—statistical data. As overseas explorations are underway to establish "statistical protective mechanisms" to resolve statistical inaccuracies, we also need to make a great effort to resolve them. 2) A soft indicator—the sense of public security, or the subjective-impression indicator. 3) A public-order projection indicator. Emphasizing only the present without projecting the future public order is imperfect and unscientific. As China has not yet set up a large-scale public-order projection system, we could first establish certain experimental zones as windows from which to observe public order trends.

III. The Relations Between Economics and Crime

The experts and scholars held that while crime growth and economic development are related, they are certainly not necessarily in a causal relationship. In the strict sense, it is not economic development per se that causes crime growth, but rather certain economic development problems that provoke a rising crime rate. If the following economic problems are not handled properly, they can induce crime. For instance, unchecked large-scale and rapid development that creates economic imbalance and lack of control, management loopholes and chaos, severe inflation, a widening gap between rich and poor, large-scale enterprise closures, and an obvious decline in group income. But these are certainly not caused by economic development per se. China's recent years of practice prove that as long as we genuinely adhere to "a hardline two-handed emphasis," working well in all areas, we can achieve economic development along with public stability. In China at present, all the way from provinces and cities down to towns, townships, and villages, there are many examples of this. Economic development is the basic way to solve the crime problem, as economic development ultimately brings widespread employment, a general improvement in living standards, S&T, educational, and cultural prosperity, and an overall improvement in national quality. Some experts noted that a rising crime rate is an unavoidable phenomenon when a nation's economy is growing at full speed, particularly when social change and industrialization are beginning. This is a worldwide problem, not unique to China. [passage omitted]

IV. The Rural Public Order Problem

While crime was more rampant in urban than rural areas before 1988, peasant crime has become ever more glaring since 1988. This is related to the slower growth of peasant income in recent years, with the spillover of urban lifestyles. In addition, while large numbers of our 100-million-plus transient peasant population are actually working and living in cities, their permanent residence registrations have not been changed, which does not help to ease the unchecked population mobility. So it is recommended that the state carry out household registration reform, first deregulating residence control in small cities and towns.

As rural public order problems differ somewhat by east, central, and west region, they should be dealt with by region. Eastern township enterprises are growing rapidly, providing more peasant job opportunities. While many new crimes are occurring in the east, that region's economic prospects are better, so that the deeper hidden perils are certainly not as severe. The west is more closed, with less glaring conflict between aspirations and realities. While per capita income is very low, the gap between rich and poor is not large, so that the public order problem in that region is still certainly not very severe. The larger problem is in central China. This region has little land and a large population, causing a glaring conflict between land and population. Secondary and tertiary industries are undeveloped, with the slow growth of peasant income forming a huge psychological gap with the strong aspirations to cast off poverty, large-scale population mobility, the "public labor wave" coming mainly from that region, and vicious crimes, such as railway and highway banditry and looting, being quite glaring in that area. In short, the peasant crime problem in central China needs particular attention. [passage omitted]

Negative Features of National Psychology

95CM0080A Beijing ZHONGGUO JIAOYU BAO
in Chinese 23 Nov 94 p 3

[Article by Shao Daosheng (6730 6670 3932): "The Status Quo of National Psychology in a Changing Society and Its Suitability"]

[FBIS Translated Excerpt] So-called "national psychology" is the sum of the psychological responses of a nation's citizen's to the immediate society. [passage omitted]

As reform and opening have turned China into a changing society undergoing all-dimensional and multi-level drastic change, China's national psychology is also obviously experiencing many crucial and brand-new changes. [passage omitted]

I

The negative aspects of national psychological development can be seen mainly in the following four trends.

1. The "Materialistic Trend" in National Psychology

The materialistic trend makes people too infatuated with material possessions, enjoyment, and worship, essentially

disregarding their own spiritual needs and development. The currently oft-mentioned money worship and hedonism is a "psychological abstract" of the public trend of materialism.

In today's society, unrestrained materialism has had a severely negative impact on social development.

The materialistic trend's overemphasis on enjoyment and possessions is bound to make people ever more greedy and scrupulously adhering to a creed of "every-one for himself."

As the materialistic trend underemphasizes ethics and morality, it leads many people to moral alienation and character degeneration. Is this not so? To realize their own excessive, unrealistic, and fantastic material desires, some will disregard all social ethics, professional morality, behavioral conscience, rules and regulations, and sense of justice and honor, in some cases not even hesitating to defy the law and commit illegal and criminal acts. [passage omitted]

2. The "Vulgarization Trend" in National Psychology

In quite a few of today's "microclimates," the things that people agree on, like, admire, and consider fashionable are not refined, but rather coarse, vulgar, fawning, and evil. These vulgarities are permeated with undisguised desire, materialism, dissipation, and stimulus-seeking. In this vulgarization trend, people actually do not dare to behave in a dignified and honest manner, rather being "forced" to "go with the crowd," having to speak and act vulgarly and coarsely.

Things have even reached the point where some who are unwilling to "wallow in the mire" are actually censured and pressured as being "falsely aloof," "artificially refined," and "insincerely honest." As such people "do not go with the flow," they cannot accomplish anything, running into walls everywhere. And in "small groups," they are very isolated, becoming loners.

So to "adapt" to certain small-group cultural atmospheres, people are forced to "go with the crowd," with some even turning into part of the "general vulgarization" against their real wills.

So this "uncivilized" or "anti-civilization" vulgarization trend actually becomes a social "fad," with streams of people pursuing it, to produce a "primitive and instinctive human-reversion phenomenon."

3. The "Indifference Trend" in National Psychology

In certain groups at present, the distance among people is growing ever greater, with ever more indifferent emotions. For some time now, mass media exposure has produced the phenomenon of onlooker indifference to either just causes or tragedies.

This change in human social behavior is obviously linked to the indifference in human psychology and emotions.

This "onlooker indifference" is related to the ever more apathetic sense of social responsibility. Why was this "onlooker indifference phenomenon" less in the 1950s and 1960s? This was because the society of the time was very attractive, and people also had a very strong sense of responsibility to the society. People made this willingly helpful, emphasis on others first, selfless, and even dutiful and unceasing spirit of contribution (or intimate social behavior) a personal reflection of the "social achievement" value, thus conscientiously serving society and others.

This "onlooker indifference" is also related to the ever growing individual-slanted concept of profit. Since reform and opening, people have turned to material and money worship, with the value of money having almost become the "overwhelming" force that governs human social behavior. Governed by such extremely individualistic values, how could any "selfless acts" occur?

And this "onlooker indifference" is also related to the strong sense of reversal and sharp discontent during the period of sudden change. As people had such high hopes for social reform, while lacking psychological readiness for the many new problems produced by social reform and opening, such as the phenomena of the severe injustice in the distribution of social wealth, the trading of power for money, and the relative impoverishment of the ordinary citizen, their social discontent certainly did not ease due to the improvement of their own living standards, rather surfacing regularly as a strong sense of reversal and "offensiveness." [passage omitted]

4. The "Restlessness Trend" in National Psychology

Many people have now caught the "restlessness" bug, shown in ways, such as impatience, impulsiveness, fanaticism, restlessness, depression, inconstancy of purpose, lack of ideological focus, lawlessness, not knowing how to pass the time, and losing one's temper frequently. This is the impulsiveness phenomenon in national psychology, an objective "impetuosity bug," also called a group-restlessness phenomenon.

It is not hard to see that this restlessness trend is full of a "utilitarian [material gain]" flavor. Once people are "activated" by an excessive money lust, their actions are bound to be clearly characterized by "utilitarianism," as well as having a lesser or greater component of "greed."

It is easy to see that this restlessness trend is full of an emotional flavor, lacking reason, with the social behavior of many being driven by an itch to get rich overnight, giving their actions a quite strong flavor of impulsiveness and emotionality.

It is not hard to see that this restlessness trend is also characterized by rashness. As its "consensual norm" is a singular orientation toward striving and "struggling" for money, it makes people toss aside their habitual "steadiness" and "careful consideration," pushing them to rashness with every slight "rustle of wind" and to giving in blindly to every slight "temptation." To be sure, for some time now, tens of thousands of people have been crowding onto a one-plank bridge to "dive into the sea" [of private business].

And it is easy to see that this restlessness trend also produces splendid misconceptions and illusions. It produces an "illusory fantasy," putting people into a dream-land of fantasy, and often causing them to make a series of absurd inferences.

These four human alienation trends in national psychology of materialism, vulgarization, indifference, and restlessness are not isolated, but rather interrelated.

Materialism is the "foundation" and "crux" of these "four alienations."

Vulgarization is the inevitable outcome of materialism, as materialism per se cannot expand people's spiritual horizons.

Indifference is the spiritual "bitter fruit" of materialism in human relations as, when all are "fighting" for their own material lusts, how could human relations be warm as springtime?!

And restlessness is a form and feature of behavior that is an inevitable expression of materialism. Just think, with such extremely limited "resources," along with such impatience to build up family fortunes, how could there not be restlessness?!

Of course, vulgarization, indifference, and restlessness also affect materialism, putting it even more out of control. [passage omitted]

Article Questions Taiwan 'Invasion' by PRC

95CM0049A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 398, 29 Oct 94 pp 17-20

[Article by Guo Hongzhi (6753 1347 3112): "The Conference Document, Is It True or False; Threats of Armed Invasion of Taiwan, They Come and Go"]

[FBIS Translated Excerpt] This year is Taiwan's "year of fear of an armed invasion of Taiwan by Communist China," and rather abruptly the people of Taiwan are reminded that Communist China has never ruled out an invasion of Taiwan, and equally abruptly the threat of war is clouding the skies of Taiwan. Everybody is asking, will it then be 1995, or 1996, or even 1997, that a war will start between the two sides of the Taiwan Strait?

A Japanese newspaper, the SANKEI SHIMBUN, recently revealed that Communist China had called an enlarged meeting of the Central Military Commission, and that at that conference Xu Huizi [1776 1920 3320], deputy chief of staff, announced that 1996 would provide a good opportunity for the People's Liberation Army [PLA] to attack Taiwan, because at that time the new weaponry of the Taiwanese navy and air force would not yet be completely in place; the "Ching Kuo," the F-16's, and the 2000-type Mirage fighters will not yet be militarily operational, and the second generation of naval vessels will not be "battle-ready." Xu Huizi also said that according to his intelligence reports, Lee Teng-hui plans to amend the constitution before the general election of 1996 and reshape the Republic of China into the four regions of Taiwan, Penghu, Kinmen, and Matsu, which would amount to acting in "practical independence," and that could give Communist China just cause for attack.

According to the said document, Gu Hui [0942 6540], commander of the Nanjing Military Region, reported at the conference the exact plan for the attack on Taiwan. It was to be enacted in five stages, namely "complete blockade without firing a shot, liberating Kinmen and Matsu islands and pressing Taiwan to sue for peace, breaking through the 'gate' of the Penghu islands, wiping out all effective hostile strength, and, based on the Penghu islands, the liberation of Taiwan." Gu Hui also said that the PLA is prepared to sacrifice five airborne divisions and ten motorized infantry companies for the liberation of Taiwan.

Finally, Liu Huaqing [0491 5478 3237], vice chairman of the Central Military Commission, said at the conference that 1997 is the 70th anniversary of the PLA, and that "it would be the greatest disgrace for our armed forces if they would not have been able to unify the motherland during these 70 years."

If the document is true, then it would be for the first time, since actively pursuing the united front policy after conclusion of the cultural revolution in 1977, that Communist China's highest military decision-making body

contemplated plans for an attack on Taiwan. The Central Military Commission is not merely an advisory body, but a decision-making body. If the heads of the military establishment, such as Liu Huaqing, Zhang Zhen [1728 7201], and Xu Huizi declare the intention to attack Taiwan, the plan has become policy, a policy that will certainly be implemented.

Could the document be true? Ruan Ming [7086 6900], an important advisor to former secretary general Hu Yaobang, most decidedly says that it is false. First of all, the document was not issued as for internal circulation within the party, but as a "conference abstract." Ruan Ming said, a high-level conference as that of the extended military commission will usually not have a "conference abstract."

Could this document have been one that the Central Committee relayed to lower authorities? The document is not in the form of a document that is formally relayed to lower authorities, as Jin Yaoru [6855 1031 1172], a former chief editor of the Hong Kong WEN WEI PO, also pointed out. If the military commission would have discussed an attack on Taiwan, a matter of such a high degree of military secrecy, only a few persons would have known about it, and it would certainly not have been relayed to lower authorities, or easily allowed to leak out. Jin Yaowu, who is 71 years old, had been sent to Taiwan by Communist China 47 years ago to do underground work and had for a long time been in charge of Communist China's united front activities against Taiwan. He judged on the basis of his own past experiences that it is highly unlikely that the document is genuine.

The titles and stated backgrounds of persons that the document mentions as having attended the meeting are unquestionably right, but terminology of the document is not such as would be used in high-level discussions in Communist China. Ruan Yuan pointed out that when the document speaks of being prepared to "sacrifice" troops, and of possibly having even a larger number of casualties in the attack on Taiwan, this kind of language would not be used in an internal conference in Communist China.

Moreover, the document mentions that Communist China has already obtained MiG-29 fighter planes, and that it will soon have completed an aircraft carrier which will be in service before 1996, all these statements raise doubt. As we understand, Communist China is indeed negotiating with Russia about the sale of MiG-31s, but that deal has not yet been consummated, and nowhere has it ever been said that Communist China has already obtained MiG-29s. Furthermore, Communist China has had plans to have built, around the year 2000, a complete aircraft carrier, and whether it would be possible for Communist China to advance the completion by 5 or 6 years raises further doubts, the more so since it takes at least another one or two years after completion to have the ship ready for active duty. It appears therefore impossible for Communist China to have the aircraft carrier ready for duty before 1996.

The most doubtful point in the document is that the chairman of the Central Military Commission, Jiang Zemin, did not attend the conference. Ruan Ming and Jin Yaoru believe that it is impossible that so important a conference as this one, which would discuss the attack on Taiwan, could have been held without Jiang Zemin. Ruan Ming furthermore pointed out that in the past, when Deng Xiaoping was chairman of the Central Military Commission, Deng would each time personally chair the meetings. Now that Jiang Zemin's leadership position in the PLA was only recently established and by far not yet firm, it is unthinkable that he would not personally chair the meeting and would allow vice chairmen Liu Huaqing and Zhang Zhen to preside over the conference.

At this time, when Communist China has not yet given up its claim of sovereignty over Taiwan, it would appear to be one of the tasks required of its general staff to draw up plans for the PLA for an eventual attack on Taiwan, the same as Taiwan's military may have drawn up plans for an attack on Communist China; that would be perfectly normal. However, this kind of planning is normally done by advisory units such as the military command post of the general staff, and would not be brought up for discussion by the Central Military Commission. Ruan Ming and Jin Yaoru pointed out that they have never heard, since 1977, that the Central Military Commission had ever discussed an attack on Taiwan.

If the Central Military Commission would have indeed discussed plans for an attack on Taiwan, it would mean

that, so to say, "the finger is already on the trigger," and that it has already become a firm decision. However, Ruan Ming also pointed out that if the Central Military Commission would have discussed any such plan, it would not have done so in the form as seen in the said document. He referred to the case of Communist China's attack on Vietnam, when the Central Military Commission discussed some strategic disposition of the nature of general principles, but not details of how to fight and how many men to sacrifice, as is mentioned in the document.

If the document is false, where could it have emanated from? Jin Yaoru said: "Perhaps Communist China has purposely given it out to frighten Taiwan." Ruan Ming said: "Maybe some Taiwanese have concocted it themselves; isn't there now the book *Intercalary August of 1996* a popular item on Taiwan?" Regardless of where the document came from, it certainly gave the Taiwanese another fright.

Since the beginning of the year, Taiwanese have had quite a few attacks of fright. There was first the book *Can China's Armed Forces Win the Next War*, conspicuously published by CHUNGKUO SHIHPAO, a book that discusses an attack by the PLA on Taiwan. This is a "book of prophecies" that you can even buy at every bookstall in Mainland China. Similarly, there is the "Intercalary August of 1995," supposed to have been printed in China, containing some not really secret military data and a book that is more like playing a game of conjectures.

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